HENG HUAT RESOURCES GROUP BERHAD
(969678-D)

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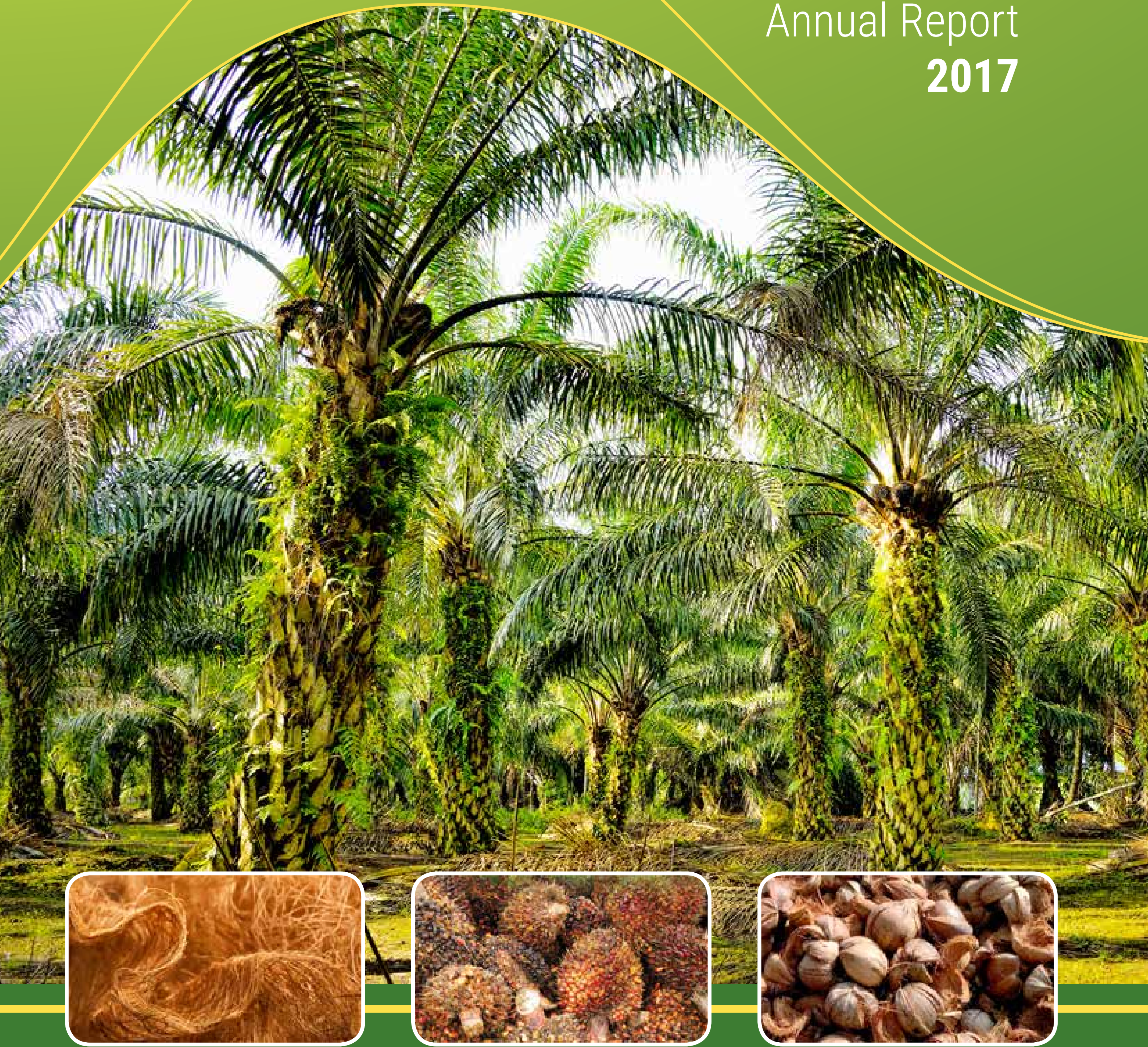
Annual Report 2017



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Vision Statement

To be the pioneering leader in the manufacturing of eco-friendly biomass material products, mattresses products and focusing on value optimisation for all stakeholders and shareholders.

Mission Statement

- Optimising value-creation for all stakeholders: wealth creation and enhancement for shareholders, value-for-money products for customers, and a mutually beneficial relationship and growth for suppliers.
- Cultivating a corporate culture that embraces positive and open-minded thinking, team-orientation, mutual respect and continuing professional and knowledge development.
- Maintaining production integrity at all times, providing customers with products of only the finest quality.
- Creating a work environment that is conducive to learning and innovation.
- Promoting effective communication with open-mindedness, both internally and externally.

Philosophy and Corporate Culture

- Challenge and problem solving.
- Change and continuously improve.
- Customers' satisfaction is a top priority.
- Good leadership.
- Honesty, integrity, ethical and professional.
- Listen and appreciate.
- Maximise resources and quality.

COMPANY PROFILE

Heng Huat Resources Group Berhad ("Heng Huat" or the "Company") was incorporated in Malaysia under the Companies Act, 1965 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. We were listed on the ACE Market of Bursa Malaysia Securities Berhad on 25 July 2014.

Heng Huat and its subsidiaries ("the Group") are principally involved in the manufacturing and trading of biomass material and value-added products, focusing on oil palm empty fruit bunch ("EFB") fibre, coconut fibre and value-added products. We are also a manufacturer and distributor of our own brands of mattresses and bedding accessories.

Biomass Materials Manufacturing

Our Group's biomass materials manufacturing operations are carried out by our subsidiaries, namely, HK Fibre Sdn Bhd, HK Kitaran Sdn Bhd, HK Palm Fibre Manufacturer Sdn Bhd, HK Gua Musang Sdn Bhd and HK Power Sdn Bhd.

The Group, through its subsidiaries, invested approximately RM50 million in the production plant (which is attached with a power plant) built on a 10-acre land located at Gua Musang, Kelantan. At present, HK Gua Musang Sdn Bhd production focuses on the manufacturing of bio oil and oil palm EFB fibre. Our bio oil is mainly supply to refinery Company for manufacture of sanitary consumer products.

We treat and process coconut husks, oil palm EFB and bio oil utilising our proprietary production process to produce large quantities of high quality fibres at a competitive price. We exert stringent quality controls over our production processes and this has enabled us to produce quality coconut and oil palm EFB fibre which are not only long, clean and fine, but has great uniformity and low oil content. As a testament to our commitment to quality, our subsidiaries, HK Kitaran Sdn Bhd and HK Palm Fibre Manufacturer Sdn Bhd have been awarded the ISO 9001:2008 accreditation and Fibre Star (M) Sdn Bhd for ISO 9001:2015.

Currently, most of our oil palm EFB fibres are exported overseas directly and/or through agents. The oil palm EFB fibres are exported to China where it is mainly used as raw materials for the production of mattresses.

Meanwhile, we consume a large proportion of our internally-produced coconut fibres through the manufacturing of our value-added products such as mattress fibre sheets and coconut peats. We have lined up various initiatives to innovate new manufacturing and processing technologies to produce various green and environmentally-friendly biomass value-added products.

Fully-Integrated Fibre Mattress and Other Bedding Accessories

Our Group's fibre mattress manufacturing operations are carried out by our subsidiaries, namely Fibre Star (M) Sdn Bhd and Fibre Star Marketing Sdn Bhd.

Our Group is one of the few mattress manufacturers who have successfully moved upstream into the manufacturing of our own mattress fibre sheets which are made from coconut fibres. We are a fully integrated fibre mattress, divan and headboard manufacturer. We design, market, produce and distribute our own fibre mattresses under the brand of "Fibre Star", which is made from our internally-produced mattress fibre sheets, whilst our other bedding accessories such as cushions, pillows and bolsters are marketed under the brand of "Xiong Mao". Currently, all our fibre and other mattresses and bedding accessories are distributed to furniture retailers in Malaysia. By manufacturing our own mattress fibre sheets, we are able to effectively control the availability of materials. This allows us the flexibility of scaling up production with greater predictability while giving us better control over production costs through the reduction of production time and material costs. In addition, we play an important role as an Original Equipment Manufacturer (OEM) of fibre mattresses for reputable brands in the local market.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dato' Juzilman Bin Basir
Independent Non-Executive Chairman

Dato' H'ng Choon Seng
Managing Director

Kee Swee Lai
Deputy Managing Director

Lim Ghim Chai
Executive Director

Datin Khor Mooi Kim
Executive Director

Teh Chai Luang
Alternate Director to Kee Swee Lai

Khor Teik Boon
Alternate Director to Dato' H'ng Choon Seng

Cheah Swi Chun
Independent Non-Executive Director

Lo Liang Kheng
Independent Non-Executive Director

AUDIT COMMITTEE

Chairman
Cheah Swi Chun

Members
Dato' Juzilman Bin Basir
Lo Liang Kheng

NOMINATION COMMITTEE

Chairman
Dato' Juzilman Bin Basir

Members
Cheah Swi Chun
Lo Liang Kheng

REMUNERATION COMMITTEE

Chairman
Lo Liang Kheng

Members
Dato' Juzilman Bin Basir
Cheah Swi Chun

RISK MANAGEMENT COMMITTEE

Chairman
Kee Swee Lai

Members
Lim Ghim Chai
Lo Liang Kheng
Dato' Juzilman Bin Basir
Cheah Swi Chun

COMPANY SECRETARY

Ooi Yoong Yoong
(MAICSA:7020753)

REGISTERED OFFICE

39 Salween Road
10050 Penang
Tel : (604) 210 9828
Fax : (604) 210 9827

SHARE REGISTRAR

AGRITEUM Share Registration Service Sdn Bhd (578473-T)
2nd Floor, Wisma Penang Garden
42, Jalan Sultan Ahmad Shah
10050 Penang
Tel : (604) 228 2321
Fax : (604) 227 2391

AUDITORS

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

PRINCIPAL BANKERS

AmBank (M) Berhad (8515-D)
HSBC Bank Malaysia Berhad (127776-V)
United Overseas Bank (Malaysia) Bhd (271809-K)

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) 2096 2281

STOCK EXCHANGE LISTING

ACE Market of Bursa Malaysia Securities Berhad
Stock Name : HHGroup
Stock Code : 0175

CORPORATE STRUCTURE

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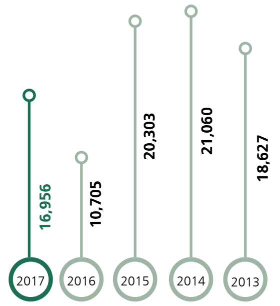
Heng Huat Resources Group Berhad
(969678-D)

- 100% Fibre Star (M) Sdn Bhd (973296-M)
- 100% Fibre Star Marketing Sdn Bhd (973299-X)
- 100% Heng Huat Industries Holdings Sdn Bhd (779222-P)
  - 100% HK Kitaran Sdn Bhd (881898-X)
  - 100% HK Palm Fibre Manufacturer Sdn Bhd (859511-M)
  - 100% HK Mega Industries Sdn Bhd (776763-X)
  - 97% HK Fibre Sdn Bhd (765548-H)
- 100% HK Gua Musang Sdn Bhd (1110062-W)
- 100% HK Power Sdn Bhd (1110063-K)
- 97% Sabut Kelapa Saujana Setiu Terengganu Sdn Bhd (1247139-M)

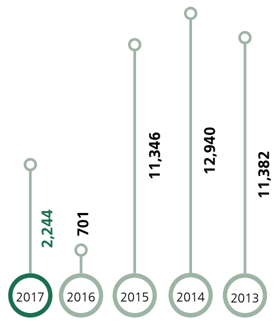
FINANCIAL HIGHLIGHTS

REVENUE
(RM'000)

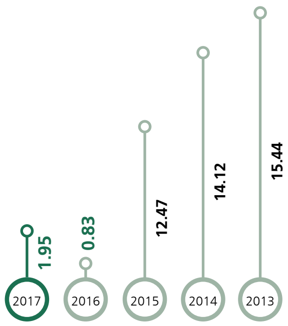
EBITDA
(RM'000)



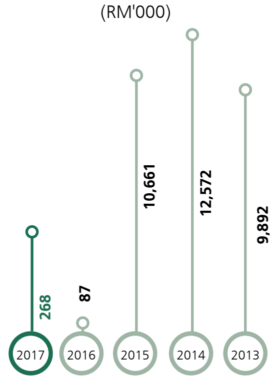
PBT
(RM'000)



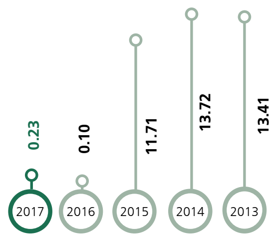
PBT MARGIN
(%)



PAT
(RM'000)



PAT MARGIN
(%)



	Financial Year Ended 31 December				
	Audited				
	2013 RM'000	**2014 RM'000**	**2015 RM'000**	**2016 RM'000**	**2017 RM'000**
Revenue	73,740	91,660	91,016	84,575	115,242
Gross Profit	31,978	39,300	36,520	29,343	38,852
Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)	18,627	21,060	20,303	10,705	16,956
Profit Before Tax (PBT)	11,382	12,940	11,346	701	2,244
PBT Margin	15.44	14.12	12.47	0.83	1.95
Profit After Tax (PAT)	9,892	12,572	10,661	87	268
PAT Margin (%)	13.41	13.72	11.71	0.10	0.23
Gross Earnings Per Share (Gross EPS) (Sen)	7.14[1]	7.20[3]	4.48[3]	0.23[3]	0.73[3]
Net Earnings Per Share (Net EPS) (Sen)	6.11[2]	5.72[3]	3.47[3]	0.01[3]	0.12[3]
Diluted Net EPS (Sen)	6.11[3]	5.72[3]	3.47[3]	0.01[3]	0.12[3]

Notes:
[1] *Calculated based on PBT divided by our existing issued and paid-up share capital of 159,300,030 Shares.*
[2] *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.*
[3] *Computed based on the weighted average number of ordinary shares in issue.*
* *Please read this section in conjunction with Heng Huat Resources Group Berhad's Prospectus dated 30 June 2014, Annual Report and Annual Audited Accounts.*

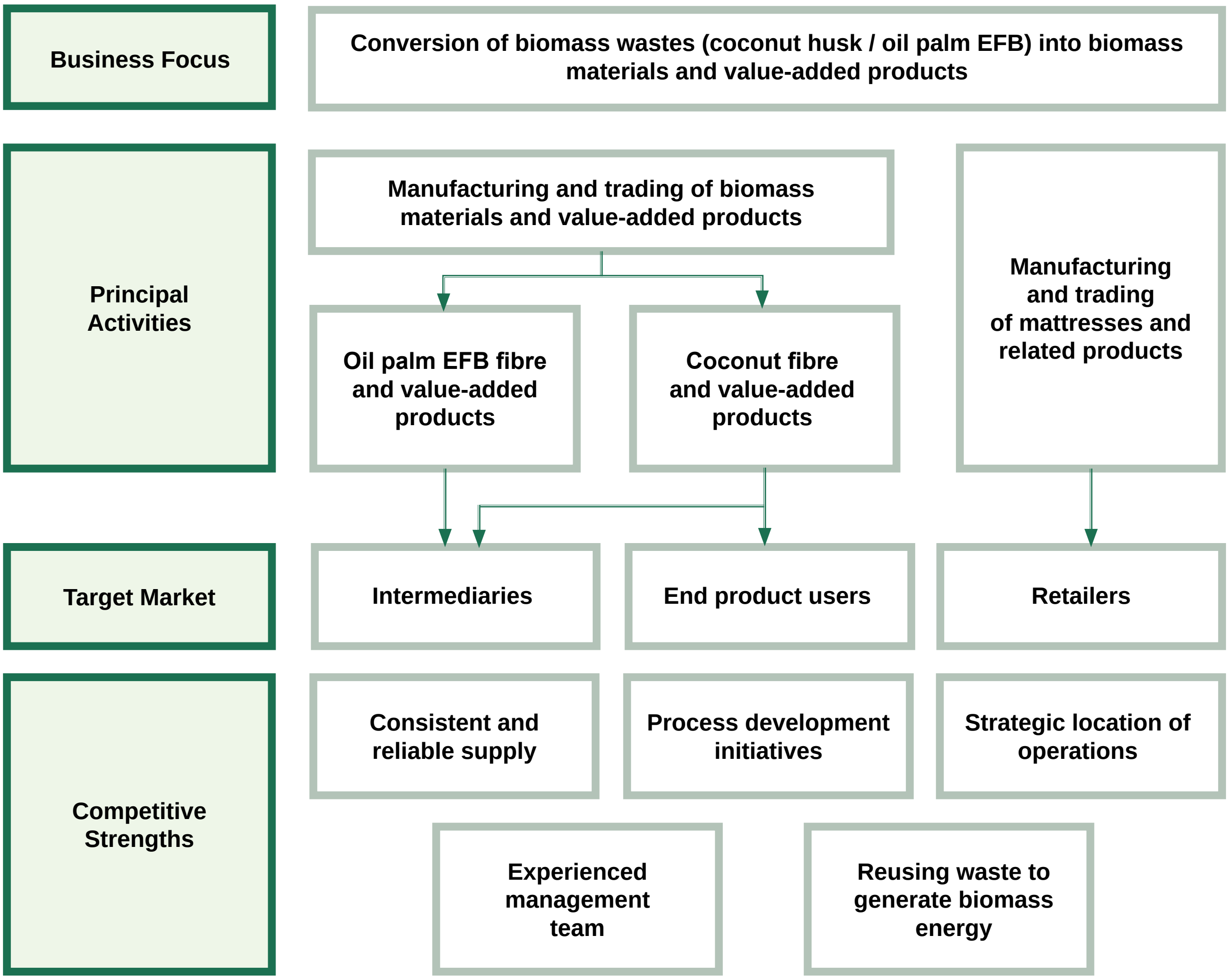
OVERVIEW OF THE GROUP'S OPERATIONS

Our Group is principally involved in the manufacturing, and trading of biomass materials and value-added products focusing on:

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

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.

Our Group's business model is as depicted below:



During the financial year under review, our oil palm EFB fibres were primarily exported to China with other products primarily distributed within the domestic market in Malaysia.

FINANCIAL RESULTS & CONDITION

- ***Financial performance***

	2017 RM'000	2016 RM'000	Year-on-Year Variance (%)
Revenue			
- Biomass materials and value-added products	92,200	60,510	+ 52.37
- Mattresses and related products	23,041	24,065	- 4.26
	115,241	**84,575**	+ 36.26
Profitability			
Gross profit ("GP")	38,852	29,343	+ 32.41
• GP margin	33.71%	34.69%	
Profit before tax ("PBT")	2,244	701	+ 220.11
• PBT margin	1.95%	0.83%	
Net profit for the year ("PAT")	268	87	+ 208.05
• PAT margin	0.23%	0.10%	

Our Group recorded total revenue of RM115.24 million for the financial year ended ("FYE") 31 December 2017, increase by approximately RM30.67 million or 36.26% as compared to the preceding year.

The improved sales performance was primarily attributable to the following factors:

(i) Increase in sales volume of oil palm EFB fibre, where total quantities sold during the financial year under review improved by 20.06% as compared to the preceding year. The increase was in line with the gradual recovery of market demand from China, supported by the enhanced production capacity of our Group following the commencement of new production plant at Gua Musang;

(ii) Increase in average selling prices of oil palm EFB fibre during the financial year under review, which has improved by approximately 14.78% as compared to the preceding year; and

(iii) Additional revenue contribution of approximately RM12.43 million respectively from sales of bio-oil, a secondary product derived from the manufacturing process of oil palm EFB fibre.

Our Group's gross profit for the financial year under review stood at RM38.85 million, higher by approximately RM9.51 million or 32.41% as compared to the preceding year primarily due to the enhanced sales performance as explained above.

Our Group's PBT and PAT for the financial year under review increase to RM2.24 million and RM0.27 million respectively, from RM0.70 million and RM0.09 million respectively in the preceding year. The growth in gross profit was, however, partially offset by the following:

i. Lower other income recorded during the financial year under review, which had halved from RM1.40 million in the preceding year to RM2.09 million, as a result of overall decrease in foreign exchange gain.

FINANCIAL RESULTS & CONDITION (Cont'd)

- ***Financial performance (Cont'd)***

ii. Overall increase in the selling and distribution costs, administrative expenses and finance costs incurred during the financial year under review:

- Selling and distribution costs increased slightly by approximately RM4.85 million or 30.53% as compared to prior year, primarily due to higher transportation costs which was primarily due to an overall hike in the rate imposed by the logistics providers and higher quantities of palm EFB fibre exported.
- Administrative and other expenses increased marginally by approximately RM0.86 million or 6.54% as compared to prior year, in line with our Group's on-going expansion at Gua Musang. Administrative and net loss of RM0.56 million recognised in relation to the fire incident at the production plant in Gua Musang, Kelantan.
- Finance costs was higher by RM1.56 million or 91.58% as compared to prior year, in line with the increase in borrowings to part finance our Group's on-going expansion at Gua Musang.

- ***Financial position***

	2017 RM'000	2016 RM'000	*Year-on-Year Variance (%)*
Total assets	168,118	159,311	*+5.53*
Total liabilities	88,308	79,769	*+ 10.70*
Shareholders' equity	79,328	75,836	*+ 4.60*
Net assets per share (sen)	**25.70**	**24.57**	

As at 31 December 2017, our Group's total assets base stood at RM168.12 million representing 5.53% increase as compared to the preceding year, in line with our Group's on-going expansion at Gua Musang.

As at 31 December 2017, our shareholders' equity remained at a positive level, stood at RM79.33 million (2016: RM75.84 million). This was mainly due to increase of retained earnings from non-controlling interest. The Group had, on 26 May 2017, acquired the remaining 50% equity interests in its subsidiary, HK Palm Fibre manufacture Sdn Bhd. Upon completion of the acquisition, the company will become wholly-owned subsidiary of the Group.

- ***Liquidity***

	2017 (Days)	2016 (Days)	Changes (Days)
Trade receivables' turnover period[(1)]	99	108	*- 9 days*
Inventories' turnover period[(2)]	53	49	*+ 4 days*
Trade payables' turnover period[(2)]	31	30	*+ 1 days*
Cash conversion cycle	**121**	**127**	***- 6 days***

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

FINANCIAL RESULTS & CONDITION (Cont'd)

- ***Liquidity (Cont'd)***

Our Group managed to improve the cash conversion cycle from 127 days in the FYE 2016 to 121 days in the FYE 2017. The improvement mainly due to reduce of trade receivables turnover period by increased of sales performance. This was in line with our Group's expansion production capacity following the commencement of new production plant at Gua Musang and other reason as explained at above.

	2017 RM'000	2016 RM'000
Cash flows from operating activities	9,344	17,994
Cash flows from investing activities	(7,230)	(26,547)
Cash flows from financing activities	(9,458)	6,328
Net movements in cash and cash equivalents	**(7,344)**	**(2,225)**
Cash and cash equivalents at end of financial year:		
Cash and bank balances	7,049	8,847
Deposits with licensed banks	2,403	2,550
	9,452	11,397
Less		
Deposits pledged to licensed banks	(2,403)	(2,550)
Bank overdrafts	(11,862)	(6,413)
	(4,813)	**2,434**
Current ratio (times)	**0.91**	**0.91**

Our Group maintained a negative cash reserve as of 31 December 2017, with net cash and cash equivalents stood at RM4.81 million (31 December 2016: RM2.43 million).

During the financial year under review, our Group recorded a negative movement in cash and cash equivalents. This was primarily due to higher cash outflows from investing activities in line with our Group's on-going expansion at Gua Musang, which was financed by a combination of external borrowings and internally-generated funds.

Our Group's current ratio had maintained at 0.91 times for the financial year under review. The increase of current assets was however, offset by increase of current liabilities. This was in line with the commencement of new production plant at Gua Musang.

FINANCIAL RESULTS & CONDITION (Cont'd)

- ***Capital expenditure requirements, capital structure and capital resources***

Capital Commitment	2017 RM'000	2016 RM'000
Capital expenditure in respect of purchase of property, plant and equipment:		
- Approved but not contracted for	-	-
- Contracted but not provided for	2,649	1,868
	2,649	**1,868**

As of 31 December 2017, our Group's planned capital expenditure had increase in view of the expansion of biomass division.

Borrowings	2017 RM'000	2016 RM'000
Short terms (repayable within 12 months)	36,400	30,193
Long terms (repayable beyond 12 months)	21,656	25,516
	58,056	**55,709**
Gearing ratio (times) Borrowings / Shareholders' Equity	**0.73**	**0.73**

During the financial year under review, our Group's gearing ratio maintain at 0.73 time as compared to prior year. Our borrowings increase by RM2.35 million or 4.21% from RM55.71 million in the preceding year to RM58.06 million as at 31 December 2017.

The increase in our Group's borrowings was primarily attributable to the following:

- Increase in the utilisation of bankers' acceptance and bank overdraft facilities by approximately RM7.01 million in aggregate, to enhance the cash flows for working capital purposes; and

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

(a) Proposed Acquisition of Power Plant

On 22 June 2015, the Company had announced that HK Power Sdn Bhd, a wholly-owned subsidiary of the Company, had entered into a contract with Advance Boilers Sdn Bhd for the design, supply, delivery to site, installation and commissioning of one (1) unit of 1,077 electrical kilowatts (eKW) biomass co-generation power plant ("Power Plant") for a cash consideration of RM8,810,000 ("Proposed Acquisition of Power Plant").

Relevant details on the Proposed Acquisition of Power Plant have been announced to Bursa Securities on the same date.

The Proposed Acquisition of the Power Plant and its construction have been completed on 24 May 2017.

(b) Proposed Transfer to Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities")

On July 2016, the Company has decided to withdraw the application on proposed transfer to Main Market of Bursa Securities ("Proposed Transfer") due to unfavourable economic condition. The decision was made after taking consideration the advice of the principal adviser that the prevailing economic environment domestically as well as regionally was deemed as not the best time for the Company to continue with the Proposed Transfer. The Company intends to relook into the Proposed Transfer in future.

(c) New production plant at Gua Musang, Kelantan

The construction of the new production plant was completed in the last quarter of 2016 and has commenced operations in January 2017. Our Group now has additional capacity for the production of oil palm EFB fibres and value-added products. This allows us to tap into new customer segments as well as expand the market coverage in China.

(d) Unusual Event on Fire incident at Gua Musang's Plant, Kelantan

A fire had occurred at the Group's production plant in Gua Musang, Kelantan. The plant belongs to HK Gua Musang Sdn Bhd, a wholly-owned subsidiary of the Company.

The fire started around 1.00 a.m. on 16 November 2017 (Thursday). No one was injured in the incident. The production floor was not severely affected and the assets are covered by insurance. The operations of HK Gua Musang Sdn Bhd has resumed.

The Group has incurred a net loss of RM0.56 million as a result of the fire incident and this has been reflected in the profit or loss of the interim financial report.

ANTICIPATED OR KNOWN RISKS

Principal Risks	Descriptions / Consequences	Strategies to Mitigate Risk
Dependent on single market	- The biomass products are sold mainly to customers in China. - The products are suitable and acceptable in the China market. - Any changes in China's ruling and economic may give significant impact to the company.	- Exploring new market such as Australia, Japan and Korea. - Diversifying the product range. - Participating in roadshow and exhibition.

FORWARD LOOKING STATEMENT

- **PROSPECT**

Looking ahead, our Group expect the orders for oil palm EFB fibre from China, being the primary market, will experience greater degree of volatility due to its continuing gradual slowdown in economic growth, as monetary policy remains tight and fiscal policy becomes less accommodative (Source: Global Economic Prospects – January 2018, World Bank Group).

Notwithstanding that, our Group remain cautiously optimistic that orders for oil palm EFB fibre from China in the mid and long term will be promising backed by the rising population in China and increasing demand for raw material alternatives that are cheaper, natural and environmentally-friendly.

Following the completion and commencement of our Group's new production plant at Gua Musang, our Group is better positioned to step up the efforts in penetrating new customer segment as well as expanding the market coverage.

The Board will monitor the market development closely and ensure that prompt actions are taken in response to the changes. Moreover, the Board will, from time to time, identify appropriate new business venture/ opportunity to enhance and expand the Group's revenue base and source.

Barring any unforeseen circumstances and adverse external economic factors, the Board of Directors is of the view that the Group's financial performance for the financial year ending 31 December 2018 will remain positive.

Menteri Besar of Kelantan state, YAB Ustaz Dato' Haji Ahmad Bin Yakob visited our HK Gua Musang Sdn. Bhd. plant on 2nd November2017

Sport Day at Kompleks Rakan Muda Jawi on 22 October 2017

Christmas Celebration on 22 December 2017

- ## 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.

DIRECTORS' PROFILE

DATO' JUZILMAN BIN BASIR

Independent
Non-Executive Chairman
Malaysian, Male, aged 61

Dato' Juzilman Bin Basir is our Independent Non-Executive Chairman and was appointed to our Board on 25 March 2014. He is presently the Chairman of the Nomination Committee and a member of the Audit Committee, Remuneration Committee and Risk Management Committee of the Company.

Dato' Juzilman Bin Basir graduated with a Bachelor of Education in Agriculture Science from University Putra Malaysia in 1982. He has over 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. He does not hold any directorship in other public companies in Malaysia.

He attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

DATO' H'NG CHOON SENG

Managing Director
Malaysian, Male, aged 51

Dato' 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 Tun Syed Sheh Barakbah, Jawi, Seberang Perai Selatan, Penang in 1983. He has since accumulated 35 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.

Dato' 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 Heng Huat Manufacturer Sdn Bhd to manufacture mattresses.

In 2007, he co-founded HK Fibre Sdn Bhd, together with Kee Swee Lai to manufacture coconut fibre which paved the way for his involvement in the biomass industry. Subsequently, HK Palm Fibre Manufacturer Sdn Bhd and HK Kitaran Sdn Bhd were established in 2009 to manufacture oil palm EFB fibre. He does not hold any directorship in other public companies in Malaysia.

He attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

He is the spouse of Datin Khor Mooi Kim and brothers-in-law to Khor Teik Boon and Teh Chai Luang. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

KEE SWEE LAI
Deputy Managing Director
Malaysian, Male, aged 55

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. He has since accumulated 31 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. He is presently the Chairman of the Risk Management Committee.

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 Sdn Bhd in 2007 followed by HK Palm Fibre Manufacturer Sdn Bhd and HK Kitaran Sdn Bhd in 2009. He does not hold any directorship in other public companies in Malaysia.

He attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

LIM GHIM CHAI
Executive Director
Malaysian, Male, aged 43

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. He is presently a member of the Risk Management Committee of the Company.

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 specializes 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, a company listed on the ACE Market of Bursa Malaysia Securities Berhad and CAB Cakaran Corporation Berhad.

He attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

DATIN KHOR MOOI KIM
Executive Director
Malaysian, Female, aged 49

Datin 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 Tun Syed Sheh Barakbah, 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 Heng Huat Furniture Sdn Bhd as an Administrator cum Human Resource Officer and was promoted to director in 1999. In 2012, she left Heng Huat Furniture Sdn Bhd and joined our Group as a director to manage our Group's human resource and administrative matters. She has since accumulated 27 years of experience in the furniture industry. She does not hold any directorship in other public companies in Malaysia.

She attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

She is the spouse of Dato' H'ng Choon Seng and sister of Khor Teik Boon. She has no conflict of interest with the Company and she has no conviction for any offences within the past 5 years other than traffic offences, if any.

TEH CHAI LUANG
Alternate Director
to Kee Swee Lai
Malaysian, Female, aged 52

Teh Chai Luang was first appointed to our Board as Executive Director on 28 May 2012. She resigned on 28 December 2017 and was re-appointed to our Board as an Alternate Director to Kee Swee Lai on the same date. 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 Heng Huat Furniture Sdn Bhd as an Administrator cum Sales Officer and was promoted to director in 1999. In 2012, she left Heng Huat Furniture Sdn Bhd and joined our Group as a director to head our sales and marketing activities. She has since accumulated 27 years of experience in the furniture industry. She does not hold any directorship in other public companies in Malaysia.

She attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

She is the sister-in-law to Dato' H'ng Choon Seng. She has no conflict of interest with the Company and she has no conviction for any offences within the past 5 years other than traffic offences, if any.

KHOR TEIK BOON
Alternate Director
to Dato' H'ng Choon Seng
Malaysian, Male, aged 46

Khor Teik Boon was first appointed to our Board as Executive Director on 28 May 2012. He resigned on 28 December 2017 and was re-appointed to our Board as an Alternate Director to Dato' H'ng Choon Seng on the same date. He completed his high school education at Sekolah Menengah Kebangsaan Tun Syed Sheh Barakbah, 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 Heng Huat Manufacturer in 2012 and joined our Group as Executive Director in the same year. He has since accumulated 29 years of experience in manufacturing operations and is responsible for overseeing our Group's mattress production. He does not hold any directorship in other public companies in Malaysia.

He attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

He is the brother of Datin Khor Mooi Kim and brother-in-law to Dato' H'ng Choon Seng. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

CHEAH SWI CHUN
Independent
Non-Executive Director
Malaysian, Male, aged 45

Cheah Swi Chun is our Independent Non-Executive Director and was appointed to our Board on 2 August 2016. He is presently the Chairman of the Audit Committee and a member of the Nomination Committee, Remuneration Committee and Risk Management Committee of the Company.

Mr Cheah graduated with a Bachelor of Commerce (Accounting) from La Trobe University, Australia in 1996. He is a member of Malaysian Institute of Accountants and also a member of CPA Australia.

He started his career with Messrs. Ernst & Young as Junior of Corporate Advisory Services division in 1996 and was promoted to Senior in 1999. In 2000, he left Messrs. Ernst & Young and joined B.Braun Medical Industries Sdn Bhd as Corporate Controller Asia Pacific region. In 2002, he left B. Braun Medical Industries Sdn Bhd and joined Astino Berhad as an Accountant and Corporate Manager. Upon the successful listing of Astino Berhad onto the Bursa Malaysia in 2003, he left to join Cooldec Industries Sdn Bhd in 2004 as Corporate Manager and was subsequently appointed as Director among its group of companies to oversee the group corporate affairs and financial matters. In 2011, under a corporate restructuring exercise he left Cooldec Industries Sdn Bhd to set up Eco Modular Sdn Bhd and was appointed as Director among the group of companies. He does not hold any directorship in other public companies in Malaysia.

He attended all 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

LO LIANG KHENG
Independent
Non-Executive Director
Malaysian, Male, aged 54

Lo Liang Kheng is our Independent Non-Executive Director and was appointed to our Board on 28 May 2012. He is presently the Chairman of the Remuneration Committee and a member of the Audit Committee, Nomination Committee and Risk Management Committee of the Company.

Mr Lo 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. He is the Treasurer of Old Frees Association in 2016. He has been a President of Penang Softball Association since 2012.

He 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. He does not hold any directorship in other public companies in Malaysia.

He attended 4 out of 5 Board of Directors' Meeting held in the financial year ended 31 December 2017.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

KEY SENIOR MANAGEMENT PROFILE

Cheng Pek Tong
Chief Finance Officer
Malaysian, Male, aged 39

Cheng Pek Tong is our Chief Finance Officer and was appointed on 1 January 2014. He graduated with a Bachelor of Accountancy from Universiti Utara Malaysia in 2004. He is 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. He is currently responsible for overseeing and monitoring our financial accounting and taxation matters, as well as planning and coordinating our financial reporting activities.

He does not hold any directorship in other public companies in Malaysia.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

Sim Kok Siang
General Manager
Malaysian, Male, aged 39

Sim Kok Siang is our General Manager and was appointed on 1 August 2014. 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 joined our Group as Factory Manager in 2010 and was subsequently promoted to General Manager. He is currently responsible for overseeing the daily operations of our Biomass division.

He does not hold any directorship in other public companies in Malaysia.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

Liang Yau Sih
Chief Accounting Officer
Malaysian, Male, aged 35

Liang Yau Sih is our Chief Accounting Officer and was appointed on 1 June 2017. He graduated with a Diploma in Accounting from Tunku Abdul Rahman College in 2002. He is a fellow member of the Association of Chartered Certified Accountants. He started his career with UHY Diong in 2006 as an Audit Junior and was subsequently promoted to Audit Senior. In 2009, he joined Gamuda Berhad as Accountant and subsequent promoted to Senior Accountant. He left Gamuda Berhad and joined Hager + Elsaesser Sdn Bhd as Project Cost Accountant in 2013 and subsequent promoted to Project Accounting Manager. In 2016, he left Hager + Elsaesser Sdn Bhd and joined our Group as a Group Accountant, and was promoted to Chief Accounting Officer. He is currently responsible for overseeing and monitoring our cost accounting, ad-hoc assignment, as well planning and coordinating our costing reporting activities.

He does not hold any directorship in other public companies in Malaysia.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

Mohamad Zaidi Bin Abdullah

Corporate Affair Chief Officer
Malaysian, Male, aged 56

Encik Mohamad Zaidi is our Corporate Affair Chief Officer and was appointed on 19 July 2017. He graduated with a Bachelor of Business Administration from MARA Institute of Technology. He started his career in Public Bank Berhad as Junior Officer in 1988 and was subsequently promoted to Assistant Branch Manager in 1998 and he have been with Public Bank Berhad for 20 years. In year 2004, he joined Permai Gas Sdn Bhd and was appointed as Business Development Director. He currently responsible to provide a good rapport with government agencies, private sector as well with public communities to enhance good relationship and image of the organisation.

He does not hold any directorship in other public companies in Malaysia.

He has no family relationship with any director and/or major shareholder of the Company. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

Jacyln Hun Leng Leng

General Manager (Marketing)
Malaysian, Female, aged 38

Jacyln Hun is our General Manager of Marketing and was appointed on 9 April 2018. She graduated with a Bachelor Degree in Business Administration from University of Hertfordshire in United Kingdom 2003. She started her career in Solectron Technology as a Business Account Executive who managed Lucent Technologies Project since mid-2003 until year 2005. In 2006, she left Solectron Technology and joined Jabil Circuit in Wuxi, China to manage Hewlett Packard's project and initiated Direct Fulfilment activities in Wuxi, China. Year 2009, Jacyln was appointed as Supply Chain Manager by Tellabs, Naperville to set up the IPO Office and managing sub-contractors in Penang, Malaysia. Due to the changes of business strategy, Tellabs moved the business back to United States and she was appointed as Senior Supply Chain Manager in SanDisk Storage Malaysia Sdn Bhd to set up the Factory Plant in Batu Kawan, Malaysia in year 2014. End of 2016, she been appointed as General Manager by Union Aluminium to manage Sales & Operations in Suzhou, China. By then, she is appointed by our Group as a General Manager of Marketing in April of 2018 to overseeing overall marketing activities.

She does not hold any directorship in other public companies in Malaysia.

She has no family relationship with any director and/or major shareholder of the Company. She has no conflict of interest with the Company and she has no conviction for any offences within the past five 5 years other than traffic offences, if any.

Boo Chin Weng

Factory Manager
Malaysian, Male, aged 50

Boo Chin Weng is mattress and coconut fibre division's Factory Manager. He graduated with a Diploma in Mechanical Technician from Institute Technology of Butterworth in 1986 and started his career with Hicom-Suzuki Malaysia Sdn Bhd as Quality Controller in the same year. He then joined Teoh Huat Feedmill Sdn Bhd as Technician in 1985 and was promoted to Assistance Supervisor in 1986. He subsequently joined NTPM Sdn Bhd as Supervisor in 1988 and was promoted to Store and Scheduling Manager in 2005. He is currently responsible for overseeing and monitoring mattress and coconut fibre operations.

He does not hold any directorship in other public companies in Malaysia.

He is brother in law to Datin Khor Mooi Kim. He has no conflict of interest with the Company and he has no conviction for any offences within the past 5 years other than traffic offences, if any.

AWARDS & ACHIEVEMENTS

HK Kitaran Sdn. Bhd.
ISO 9001:2008

HK Palm Fibre Manufacturer Sdn. Bhd.
ISO 9001:2008

Fibre Star (M) Sdn Bhd
ISO 9001:2015

Golden Bull Award
Year : 2010

SME 100 Fast Moving Company Award
Year : 2011

Green TAG Certificate of Endorsement
Year : 2013

Superbrands Award
Year : 2015

Golden Eagle Award 2015
Malaysia 100 Excellent Enterprises
Year : 2015

Asia Honesty Product Award 2015
Year : 2015

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors of Heng Huat Resources Group Berhad **("Board")** is committed to ensure that good corporate governance is practised and applied throughout the Group. These best practices will not only safeguard and enhance sustainability of its shareholders' value but also ensure that the interests of all the stakeholders are protected.

The Board is guided and remains vigilant of the principles and recommendations of corporate governance as stipulated in the Malaysian Code on Corporate Governance which took effect on April 2017 ("the Code"). The Group will continuously uphold good corporate governance practices and will endeavour to ensure that the principles and recommendations advocated therein by the Code are observed, where applicable and appropriate. The detailed explanation on the application of the corporate governance practices are reported under Corporate Governance Report ("CG Report") as published in the Company's website at http://www.henghuat.com.my

The three (3) principles set out below describe the extent of how the Group has applied and complied with the principles and recommendations set out in the Code pursuant to Rule 15.25 of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad **("Listing Requirements")** for the financial year under review.

Principle A	Board leadership and effectiveness
Principle B	Effective audit and risk management
Principle C	Integrity in corporate reporting and meaningful relationship with stakeholders

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS

Roles and Responsible of the Board

The Board acknowledges its key responsibilities in establishing the Group's overall strategic objectives, deliberating and directing strategic action plans and policies and strategic allocation of the Group's resources to align with the overall objectives of the Group. The primary focus of the Board mainly comprised formulation of strategies, overseeing the proper conduct of the Group's business and evaluating whether the business is properly managed, monitoring of financial performance, evaluation and management of principal risks faced by the Group, implementation and review of risk management and internal control system, succession planning, as well as development and implementation of investor relations programme and shareholders' policy.

To ensure the effective discharge of its function and responsibilities, the Board delegates some of the Board's authorities and discretion to the Executive Directors and key management staff of the operating units within the Group **("Management")**, as well as properly constituted Board committees. There is a clear segregation of responsibilities reserved for the Board and those delegated to the Management. Any material and important proposals that will significantly affect the policies, strategies, directions and assets of the Group will be subject to approval by the Board. None of the members of the Board has unfettered powers of decision.

The Board committees established are the Audit Committee, the Nominating Committee, Remuneration Committee and the Risk Management Committee (collectively referred to as the **"Board Committees"**). The Board committees are entrusted with specific duties and responsibilities to oversee the Group's affairs, in accordance with their respective terms of reference. At each Board meeting, minutes of the Board Committee meetings are presented to the Board. The respective Chairman of the Board Committees will also report to the Board on key issues deliberated by the Board Committees.

The roles and responsibilities of Executive and Non-Executive Directors are distinguished and clearly defined. The Executive Directors, through their daily involvement in the operations of the Group, assume the primary responsibility for managing the Group's operations and resources. Their intimate knowledge and vast experience of the business and their active-participation management style have contributed to the continued growth of the Group.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Roles and Responsible of the Board (Cont'd)

The Independent Non-Executive Directors, on the other hand, exercise with professional competence and independence, a supervisory role via their involvement in various Board committees and focus principally on performance monitoring and enhancement of corporate governance and internal controls. They offer a capable check and balance for the Executive Directors and ensure that issues pertaining to strategies, performance and resources allocation proposed by the Management (led by the Executive Directors) are objectively evaluated, taking into consideration the interests of the shareholders and relevant stakeholders of the Group.

Roles of Chairman

Dato' Juzilman Bin Basir is the Independent Non-Executive Chairman of the Company who is responsible for instilling good corporate governance practices, leadership and effectiveness of the Board.

The Chairman's responsibilities include:

- Chairing Board meetings and ensures the following:
    - All relevant issues are on the agenda;
    - Board freely debates on the strategic and critical issues;
    - Board receives the necessary management reports on a timely basis; and
    - Accurate, timely and clear information are provided to members of the Board.
- Providing leadership to the Board and is responsible for the developmental needs of the Board.
- Chairing shareholders' meetings and ensuring effective communication with shareholders and stakeholders.
- Facilitating the effective contribution of non-executive directors and ensuring constructive relations between the executive and non-executive directors.

The roles of the Chairman are mentioned in detail in the Board Charter which is made available on the Company's corporate website www.henghuat.com.my

Separation of Roles of Chairman and Managing Director

A segregation of responsibilities between the Independent Non-Executive Chairman and the Managing Director is practiced by the Company. Their roles are clearly defined and segregated to ensure appropriate balance of power and authority, increased accountability and enhanced capacity of the Board for independent decision-making. The Chairman is not related to the Managing Director and is responsible for leading the Board in the oversight and supervision of the Group's management. The Chairman also exercises control over the quality, quantity and timeliness of information flow between the Board and the Management. The Managing Director is responsible for the day-to-day operations of the Group, making strategic business decision and implementing Board policies and decisions.

Role of Company Secretary

The Board is supported by a qualified Company Secretary. The Company Secretary plays an advisory role to the Board in relation to the Company's Articles of Association, Board's policies and procedures and compliance with the relevant regulatory requirements, codes or guidance and legislations. The Company Secretary is also responsible in ensuring that deliberations at the Board and its Committees meetings are properly minuted and kept. During the financial year under review, the Board is satisfied with the performance and support rendered by the Company Secretary to the Board in discharging its duties and responsibilities.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Information and Support of Director

The Board convenes regular meetings on a quarterly basis to deliberate on the Group's overall strategies, operations and financial performance of the Group, with additional meetings to be convened from time to time to resolve any major and ad hoc matters requiring immediate attention. Directors are allowed to either participate in person, or through electronic means of communication (via teleconference).

During the financial year under review, 5 Board meetings have been called. The attendance of the individual Directors at the Board meetings are as follows:

	Attendance of Meeting
Executive Directors	
Dato' H'ng Choon Seng	5/5
Kee Swee Lai	5/5
Lim Ghim Chai	5/5
Datin Khor Mooi Kim	5/5
Alternate Director	
(i) Khor Teik Boon Alternate Director to Dato' H'ng Choon Seng	5/5
(ii) Teh Chai Luang Alternate Director to Kee Swee Lai	5/5
Independent Non-Executive Directors	
Dato' Juzilman Bin Basir	5/5
Lo Liang Kheng	4/5
Cheah Swi Chun	5/5

(i) Khor Teik Boon resigned as Executive Director and was appointed as Alternate Director to Dato' H'ng Choon Seng, our Managing Director on 28 December 2017.
(ii) Teh Chai Luang resigned as Executive Director and was appointed as Alternate Director to Kee Swee Lai, our Deputy Managing Director on 28 December 2017.

The Board is satisfied with the Directors' commitment in fulfilling their roles and responsibilities as directors, as evidenced by the good attendance record of the Directors at the Board meetings.

The Board is given full and unrestricted access to all information pertaining to the Group's affairs to assist them in discharging their fiduciary duties effectively. The Board also has full access to the advice and services of the Company Secretary who are responsible to the Board for ensuring that the Board meeting procedures are adhered to and that the applicable rules and regulations are being complied with. The Board is allowed, whether as a full board or in their individual capacity, to solicit independent professional advice, where necessary and in appropriate circumstances, in furtherance of their duties, at the Group's expense.

Relevant formal meeting agenda are circulated to the Board members in advance of each Board meeting to ensure the Directors have sufficient time to solicit further explanations and/or information, where necessary, so as to enable them to duly discharge their duties and ensure that deliberations at the meeting are focused and constructive. Senior Management team and external advisers are normally invited to attend meetings to provide insights and professional views, advice and explanation on specific items on the meeting agenda.

The proceedings and relevant resolutions passed at the Board meeting are duly recorded by the Company Secretary, and properly documented and filed in the Minutes Book maintained at the Registered Office of the Company.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Board Charter

A formal board charter **("the Charter")** has been drawn up and adopted by the Board in accordance with of the Code. The Board is guided by its Board Charter which clearly sets out the Board's roles, duties and responsibilities in discharging its fiduciary and leadership functions.

The objectives of the Charter are to ensure that the members of the Board are aware of their roles, duties and responsibilities and the application of principles and practices of good corporate governance in their business conduct and dealings in respect of, and on behalf of the Company and comply with the various laws and regulations governing them and the Company.

The Board will review the Charter at least once in every financial year and to make any necessary amendments when the Board deems necessary.

The Board Charter is available for reference on the Company's corporate website at www.henghuat.com.my.

Code of Conduct and Ethics

A formal code of conduct **("the Code of Conduct")** which outlines the standards of business conduct and ethical behaviour which the Directors and employees should adhere to has been put in place in accordance with the Code.

The Code of Conduct is available for reference on the Company's corporate website at www.henghuat.com.my.

Whistleblowing Policies and Procedures

The Group has a whistleblowing policy and procedure to allow employees and any external stakeholders to report cases of bribery amongst other matters in the workplace. There are proper grievance procedures in place to allow employees to report on matters that they wish to highlight to Management's attention.

The Whistleblowing policies and procedures is available for reference on the Company's corporate website at www.henghuat.com.my.

Board Composition and Independence

The Board currently consists of 7 members, comprising 4 Executive Directors and 3 Independent Non-Executive Directors. The Group also have 2 Alternate Directors, as follows:

Independent Non-Executive Chairman
Dato' Juzilman Bin Basir

Executive Directors
Dato' H'ng Choon Seng (Managing Director)
Kee Swee Lai (Deputy Managing Director)
Lim Ghim Chai (Executive Director)
Datin Khor Mooi Kim (Executive Director)

(i) Khor Teik Boon (Alternate Director to Dato' H'ng Choon Seng)
(ii) Teh Chai Luang (Alternate Director to Kee Swee Lai)

Independent Non-Executive Directors
Cheah Swi Chun
Lo Liang Kheng

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Board Composition and Independence (Cont'd)

(i) Khor Teik Boon resigned as Executive Director and was appointed as Alternate Director to Dato' H'ng Choon Seng, our Managing Director on 28 December 2017.
(ii) Teh Chai Luang resigned as Executive Director and was appointed as Alternate Director to Kee Swee Lai, our Deputy Managing Director on 28 December 2017.

The composition of the Board is in compliance with paragraph 15.02 of the Listing Requirements, which requires at least 2 Directors or 1/3 of the Board, whichever is the higher, to consist of Independent Non-Executive Directors.

The Board fully aware that the Code recommended that at least half of the Board comprises independent directors. However, the inconsistency with the recommended practice does not resulting the matters deliberated at the Board meeting influenced by the Executive Directors. The Board will do the necessary to comply with recommendation of the Code the financial year ending 31 December 2018.

To this end, the Board in 18 April 2018, agreed to take the necessary steps to ensure compliance of the requirement to have a majority of the Board comprise of Independent Director.

The biographical information of each Director are presented on pages 15 to 23 of this Annual Report, under Directors' Profile.

Members of the Board are persons of high calibre with different professional and commercial backgrounds. With a blend of good management, entrepreneurial skills and industry-specific knowledge, they bring extensive depth and diversity in experience and perspectives which are essential for the sustainability of the Group. To ensure an effective and independent supervision, all the Independent Non-Executive Directors in office are independent of the Executive Directors, Management and major shareholders of the Company, and are free from any business or other relationship with the Group that could materially interfere with the exercise of their independent judgement. This offers a proper check and balance on the Board's deliberations.

Continuing Education Programme for Directors

The Board takes cognisance of the importance of appropriate continuous training in keeping the Directors updated and informed on the changes and developments of operating environment and the corporate regulatory framework.

All the Directors have attended and completed the Mandatory Accreditation Programme (MAP). Moreover, the Directors are briefed and updated at the quarterly meetings by the Sponsor, Corporate Finance Adviser, Company Secretary, Internal and/or External Auditors on relevant amendments to the Listing Requirements, corporate governance practices and principles, risk management and internal control approaches, Malaysian Financial Reporting Standards, as well as auditing requirements. The Directors also gained insights to the market development through constructive and active deliberations at the Board meetings.

During the financial year under review, the training programmes, seminars and briefings attended by the Directors are as follows:

Name od Director	Training Programme
Dato' Juzilman Bin Basir	• Corporate governance breakfast series: Thought leadership session for directors "Leading in a Volatile, Uncertain, Complex, Ambiquous(VUCA) World".
Dato' H'ng Choon Seng	• Key amendments to listing requirements arising from Companies Act 2016; and • Dealings in Listed Securities, closed period & insider training.
Kee Swee Lai	• Key amendments to listing requirements arising from Companies Act 2016; and • Dealings in Listed Securities, closed period & insider training.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Continuing Education Programme for Directors (Cont'd)

During the financial year under review, the training programmes, seminars and briefings attended by the Directors are as follows: (Cont'd)

Name od Director	Training Programme
Lim Ghim Chai	• Income tax & GST implication and application leveraging the new Companies Act 2016; • Key amendments to listing requirements arising from Companies Act 2016; and • Dealings in Listed Securities, closed period & insider training.
Datin Khor Mooi Kim	• Key amendments to listing requirements arising from Companies Act 2016; and • Dealings in Listed Securities, closed period & insider training.
Teh Chai Luang	• Key amendments to listing requirements arising from Companies Act 2016; and • Dealings in Listed Securities, closed period & insider training.
Khor Teik Boon	• Key amendments to listing requirements arising from Companies Act 2016; and • Dealings in Listed Securities, closed period & insider training.
Cheah Swi Chun	• Corporate governance breakfast series: Thought leadership session for directors ”Leading in a Volatile, Uncertain, Complex, Ambiquous(VUCA) World”; • MIA-SC Workshop on Malaysian Code on Corporate Governance; and • A to Z of Financial Instruments - A Practical Approach to IAS 39 (IFRS9), IAS 32 and IFRS7.
Lo Liang Kheng	• SSM compass on companies act 2016 & interest schemes act 2016; • Corporate governance breakfast series: Thought leadership session for directors ”Leading in a Volatile, (iii)Uncertain, Complex, Ambiquous(VUCA) World”; and • Case study workshop for independent Director ”Rethinking - Independent Director: A new frontier”.

The Board is mindful of the importance of continuing professional development and the need for continuous update and training. The Board, via the Nominating Committee, will assess the training needs of the Directors on a continuing basis. The Directors are expected to identify suitable training programmes for participation to ensure that they are updated and kept abreast with the economy developments, changes in the industry and business environment, new regulatory and financial reporting requirements, as well as essential practices for effective corporate governance, risk management and internal control. Thus, allowing them to discharge their roles and responsibilities effectively.

Compliance with Applicable Financial Reporting Standard

The Board strives to provide shareholders with a balanced and meaningful evaluation of the Group’s financial performance, financial position and prospects through the issuance of Annual Audited Financial Statements, quarterly financial reports, and corporate announcements on significant developments affecting the Group in accordance with the Listing Requirements.

The Annual Audited Financial Statements and quarterly financial reports are prepared in accordance with the applicable approved accounting standards in Malaysia, the provisions of the Companies Act, 2016 and the Listing Requirements of Bursa Securities.

Directors’ responsibilities in relation to the preparation of the Group’s financial statements are further elaborated under Directors’ Responsibility Statement.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Compliance with Applicable Financial Reporting Standard (Cont'd)

The Audit Committee assists the Board in overseeing the Group's financial reporting processes and ensuring the quality of its financial reporting. The Group's annual and quarterly financial statements are reviewed by the Audit Committee, with the focus on changes in accounting policies, Management's judgement in applying these accounting policies as well as the assumptions and estimates applied in accounting for certain material transactions.

Assessment of Suitability and Independence of External Auditors

The Board acknowledges that the independent opinion of the Group's External Auditors is essential in reassuring the shareholders that the Group's financial statements present a true and fair view of its financial position, financial performance and cash flows status.

The Board strives to establish a transparent and professional relationship with the Group's External Auditors with the assistance of the Audit Committee. The Audit Committee members meet with the Group's External Auditors at least twice a year with the absence of the Executive Directors and Senior Management to discuss the results and concerns arising from their audit.

The Audit Committee is responsible to review and monitor the suitability and independence of the Group's External Auditors. The Audit Committee had obtained assurance from its external auditors, Messrs. BDO, confirming that they are, and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. After having satisfied with the performance of Messrs. BDO and its audit independence, the Audit Committee recommended the re-appointment of Messrs. BDO to the Board for approval by its shareholders at the forthcoming AGM.

Tenure of Independent Director

The Board is aware that the tenure of an Independent Non-Executive Director should not exceed a cumulative term of 9 years as recommended by the Code.

Upon completion of the 9 years, the Independent Non-Executive Director concerned may:
- Continue to serve on the Board if deemed appropriate and suitable by the Board, subject to him/her being re-designated as Non-Independent Director; or
- Remain as an Independent Non-Executive Director if deemed appropriate and suitable by the Board, subject to the shareholders' approval. The Board must provide justification for the decision.

As of the date of this Annual Report, none of the Independent Non-Executive Directors has served a consecutive term of 9 years.

Board Diversity, Targets and Measures to Meet Those Targets

The Board is cognisant of the gender diversity. The Group currently has 1 female Executive Director albeit there is no female Independent Non-Executive Director.

The Board acknowledges the important of promoting gender diversity to comply with the recommendations of the code.

As recommended under practice 4.5, the Code encourages that the Board comprises of 30% women directors. The Board will remain mindful and has set an objective to comply with the Code by appointing more women director to the Board when suitable candidate is identified to support the Group's objectives.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Board Diversity, Targets and Measures to Meet Those Targets (cont'd)

The Group is an employer who provides equal opportunity to all its employees. All appointments and employments are strictly based on meritocracy and are not driven by any racial, gender, ethnicity or age bias.

Sourcing of Director

The Nominating Committee shall exclusively comprises of Non-Executive Directors, a majority of whom are Independent Directors and is primarily responsible for the following:

- Propose, consider and recommend suitable persons for appointment as Director. In making its recommendations, the Nominating Committee should consider the candidates:

  - Skills, knowledge, expertise and experience;
  - Professionalism;
  - Integrity; and
  - In the case of candidates for the position of Independent Non-Executive Directors, to evaluate the candidates' ability to discharge such responsibilities/ functions as expected from the Independent Non-Executive Directors.

- Recommend to the Board the Directors to fill the seats on the Board Committees;
- Annual review of the required mix of skills, experience, competencies, independency and other qualities, which Non-Executive Directors should bring to the Board;
- Annual assessment of the effectiveness of the Board as a whole, the Board Committees and contribution of each individual Director including the Independent Non-Executive Directors as well as the Chief Executive Directors;
- Review the succession plans and training programmes for the Board; and
- Perform such other responsibilities as may be delegated by the Board from time to time.

During the financial year under review, 1 meeting of the Nominating Committee was held to undertake the following activities:

- Assessed the size and composition of the Board;
- Reviewed and discussed the performance and contribution of the individual Directors (both the Executive Directors and Independent Non-Executive Directors);
- Assessed the performance of the Board and of the respective Board Committees;
- Reviewed the terms of office and performance of Audit Committee and each of its members; and
- Evaluated the Directors that shall retire at the forthcoming Annual General Meeting ("AGM") pursuant to the Company's Articles of Association, and made recommendation for their re-election.

The details of attendance are reflected below:

	Attendance of Meeting
Chairman	
Dato' Juzilman Bin Basir *(Independent Non-Executive Chairman)*	1/1
Members	
Lo Liang Kheng *(Independent Non-Executive Director)*	1/1
Cheah Swi Chun *(Independent Non-Executive Director)*	1/1

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Chairmanship of the Nomination Committee

Practice of the Code advocates that the Chairman of the Nominating Committee should be the Independent Director or a Senior Independent Non-Executive Director. The Company complies with this recommendation, with Dato' Juzilman Bin Basir identified as the Senior Independent Non-Executive Director.

The Nominating Committee carries out an assessment on the composition of the Board, contribution of each individual Directors and overall effectiveness of the Board as a whole, and the Board Committees, on an annual basis, to ensure as far as possible, the Board is equipped with members of different mix of skill sets, competencies and gender diversity as well as to identify areas for improvement and for the purposes of reappointment of Directors of the Company.

Upon assessment of the Board's size and composition, the Nominating Committee is satisfied that the Board's size is appropriate given the scale of the Group's business and operations and the composition is well-balanced with mix of knowledge, skills and attributes to enable the Board to discharge its duties efficiently.

Evaluation of Board, Board Committees and Individual Directors

The Board as a whole makes decisions on appointment of Director, upon recommendation by the Nominating Committee.

The selection and appointment of suitable candidates for the Board membership are conducted in a systematic manner. It involves the following 5 nomination procedures:

- Identification/selection of potential candidate(s);
- Assessment of suitability of candidate(s);
- Formal interview with potential candidate(s);
- Final deliberation by the Nominating Committee; and
- Recommendation to the Board for approval.

In the selection process, the Board and the Nominating Committee endeavour to appoint member that can improve the Board's overall compositional balance and enhance the Board's overall effectiveness in discharging its duties. The selection process is unbiased and unprejudiced in respect of race, religion and gender although the Board and the Nominating Committee are cognisant of the gender diversity recommendation advocated by the Code.

Pursuant to the Company's Articles of Association, 1/3 of the Directors are required to retire at each Annual General Meeting and be subjected to re-election by shareholders. All Directors shall also retire at least once every 3 years. Directors who are newly appointed by the Board shall retire and subject themselves for re-election by the shareholders at the next Annual General Meeting held following their appointments.

The Companies Act, 2016 abolished the maximum age for Directors and hence, the appointment or re-appointment of Directors will be based on their qualifications and merits.

Upon the recommendation of the Nominating Committee and the Board, the Directors who are standing for re-election and re-appointment at the forthcoming Annual General Meeting of the Company to be held in 2018 are as stated in the Notice of Annual General Meeting.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Annual Assessment of the Board

The Nominating Committee carries out an assessment on the composition of the Board, contribution of each individual Directors and overall effectiveness of the Board as a whole, and the Board Committees, on an annual basis, to ensure as far as possible, the Board is equipped with members of different mix of skill sets, competencies and gender diversity as well as to identify areas for improvement and for the purposes of reappointment of Directors of the Company.

Upon assessment of the Board's size and composition, the Nominating Committee is satisfied that the Board's size is appropriate given the scale of the Group's business and operations and the composition is well-balanced with mix of knowledge, skills and attributes to enable the Board to discharge its duties efficiently.

Remuneration Policy and Procedures for Director and Senior Management

According to the Code, the Remuneration Committee shall only consist of Non-Executive Directors, a majority of whom are Independent Directors and is primarily responsible for the following:

- Recommend to the Board the remuneration package of the Executive Directors and key senior management personnel in all its form, drawing from outside advice, if necessary;
- Recommend to the Board the remuneration of Non-Executive Directors which shall be a decision of the Board as a whole, save and except where the remunerations is in respect of any member or members of this Committee; and
- Assist the Board in discharging its responsibilities relating to, amongst others, compensation strategy, succession planning, management development and other compensation arrangements.

During the financial year ended under review, 1 meeting of the Remuneration Committee was held and the details of attendance are reflected below:

	Attendance of Meeting
<u>Chairman</u>	
Lo Liang Kheng *(Independent Non-Executive Director)*	1/1
<u>Members</u>	
Dato' Juzilman Bin Basir *(Independent Non-Executive Chairman)*	1/1
Lim Ghim Chai *(Executive Director) (resigned on 29 December 2017)*	1/1
Cheah Swi Chun *(Independent Non-Executive Director)*	1/1

The principal objective of the Group's remuneration policy is to attract, retain and motivate the Directors of the necessary calibre and experience to lead and manage the Group effectively. For Executive Directors, the remuneration package is structured to align the interests of the Executive Directors with those of shareholders and is linked to corporate and individual performance, service seniority, experience and responsibilities. For Independent Non-Executive Directors, the level of remuneration is based on the level of their experience and responsibilities.

The framework of Executive Directors' remuneration package and the terms of their employment are recommended by the Remuneration Committee for the Board's approval. The remuneration package of Independent Non-Executive Directors are determined by the Board as a whole. Directors are required to abstain from deliberations and voting on decisions concerning their own remuneration.

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Disclosure of Remuneration

The details of the remuneration of the Directors for the financial year ended 31 December 2017 are as follows:

Group	Fees	Meeting Allowance	Salary	Bonus	Other emoluments	Benefit-in-kind
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non-Executive Director						
Dato' Juzilman Bin Basir	84	*	-	-	-	-
Cheah Swi Chun	24	*	-	-	-	-
Lo Liang Kheng	24	*	-	-	-	-
Executive Director						
Dato' H'ng Choon Seng	-	-	876	438	162	28
Kee Swee Lai	-	-	708	360	132	24
Lim Ghim Chai	-	-	204	60	33	24
Datin Khor Mooi Kim	-	-	204	55	33	17
Alternate Director						
(i)Khor Teik Boon	-	-	120	55	23	9
(ii)Teh Chai Luang	-	-	204	55	33	9

Company	Fees	Meeting Allowance	Salary	Bonus	Other emoluments	Benefit-in-kind
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non-Executive Director						
Dato' Juzilman Bin Basir	84	*	-	-	-	-
Cheah Swi Chun	24	*	-	-	-	-
Lo Liang Kheng	24	*	-	-	-	-
Executive Director						
Dato' H'ng Choon Seng	-	-	36	38	10	-
Kee Swee Lai	-	-	81	30	14	24
Lim Ghim Chai	-	-	108	30	17	-
Datin Khor Mooi Kim	-	-	48	11	8	-
Alternate Director						
(i)Khor Teik Boon	-	-	48	11	8	-
(ii)Teh Chai Luang	-	-	48	11	8	-

(i)Khor Teik Boon resigned as Executive Director and was appointed as Alternate Director to Dato' H'ng Choon Seng, our Managing Director on 28 December 2017.
(ii)Teh Chai Luang resigned as Executive Director and was appointed as Alternate Director to Kee Swee Lai, our Deputy Managing Director on 28 December 2017.

**Less than RM1,000*

PRINCIPLE A - BOARD LEADERSHIP AND EFFECTIVENESS (Cont'd)

Disclosure of Remuneration (Cont'd)

The total remuneration paid to the top 5 Key Senior Management for the financial year ended 31 December 2017 is set out below:

Remuneration	For the financial year ended 31 December 2017 RM'000
Salaries and bonus	603
Social contribution	77
Benefit-in-kind	24
	704

The Company does not comply with the recommendations to disclose the detailed remuneration of each member of Senior Management in bands of RM50,000 on a named basis in order to preserve confidentiality, negative impact arising from the disclosure, and the larger need to maintain a stable work environment to meet long-term strategic goals.

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

Risk Management

The Board recognises the significance of sound risk management and internal control systems, which are necessary to safeguard the Group's assets and shareholders' investment. To this end, the Board affirms its overall responsibility in ensuring the adequacy, effectiveness and integrity of the Group's risk management and internal control system which encompasses risk management practices as well as financial, operational and compliance controls. Nonetheless, it is important to note that such system, by its nature, manages but not eliminates risks and therefore can provide only reasonable and not absolute assurance against material misstatement, loss or fraud.

The *Statement on Risk Management and Internal Control* set out on pages 44 to 47 of this Annual Report provides an overview of the state of risk management and internal controls within the Group.

Internal Audit Function

The Board has outsourced its internal audit function to a professional consulting firm, which is independent to the activities and operations of the Group. The Outsourced Internal Auditors conduct independent reviews on the state of risk management and internal controls of the Group and report directly to the Audit Committee. The findings of the internal auditors, together with recommended action plans, are reported to the Audit Committee and conveyed to the Management.

A summary of the major areas of work performed by the internal auditors during the financial year are set out in the *Audit Committee Report* on pages 48 to page 51 of this Annual Report.

Risk Management Committee

The Risk Management Committee ("RMC") has been established to review the adequacy and effectiveness of risk management of the Group. The RMC's main role is to review, on behalf of the Board, the system of risk management necessary to manage the key risks inherent in the business and to present its findings to the Board.

PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT (Cont'd)

Risk Management Committee (Cont'd)

Risk Management enables the Group to identify, assess and mitigate risks systematically.

Continuous risk assessment is fundamental to the Group's risk management process where the risk owners from the business and corporate units are responsible to develop the appropriate response strategies to mitigate the risks.

Detail of the activities carries out by the RMC in 2017 are set out on pages page 44 to page 47.

The Term of Reference is available for reference on the Company's corporate website at www.henghuat.com.my.

PRINCIPLE C – INTERGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Corporate Disclosure Policy

The Board is aware of the importance of maintaining proper corporate disclosure procedures with the aim of providing shareholders and investors with comprehensive, accurate and quality information on a timely basis. Personnel and working team preparing the disclosure will conduct proper verification, as well as coordinate the efficient disclosure of material information to the investing public.

The Board, in its best efforts, always ensure that the financial results are released to the shareholders and the general public on a timely manner and the financial statements are presented with accuracy and adequacy and comply with all relevant regulatory reporting requirements and financial reporting standards.

Leverage on Information Technology for Effective Dissemination of Information

To ensure effective dissemination of information to the shareholders and stakeholders, an Investor Relations ("IR") section has been incorporated in its corporate website, which provides all relevant information on the Group and is accessible by the public. This IR section enhances the IR function by including all announcements made by the Company to the website of Bursa Securities, quarterly report, annual report, board charter as well as corporate governance structure of the Company.

The Company will continuously enhance the disclosures on its website for broader and effective dissemination of information to its shareholders and stakeholders.

Shareholders' Participation at General Meeting

All shareholders are invited and encouraged by the Board to attend the Company's general meeting, particularly the Annual General Meeting, as it forms an important platform where the shareholders can engage directly with the Board and the Management and raise any questions and concerns they may have on the Group. The Company is looking forward to solicit feedbacks and views from its shareholders and answer shareholders' question on all issues pertaining to the Company at the AGM. Shareholders who are unable to attend personally are allowed to appoint proxy/proxies to attend and vote on their behalf. Notice of the Annual General Meeting is circulated to the shareholders at least 28 days prior to the meeting.

Poll Voting

The Board is mindful of the poll voting requirement under Paragraph 8.31A of the Listing Requirements. The Board will implement poll voting for all the resolutions to be passed in the forthcoming Annual General Meeting. The Company will appoint 1 scrutineer, who is independent of the Group and the person undertaking the polling process, to validate the votes casted.

PRINCIPLE C – INTERGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (Cont'd)

Poll Voting (Cont'd)

The Board will consider adopting electronic voting to facilitate greater shareholders participation when the facilities for electronic voting mechanism are more prevalent in the future.

Effective Communication and Proactive Engagement

The Board acknowledges the paramount importance of an active and constructive communication policy that enables effective communication between the Board, shareholders, stakeholders and general public and the importance of timely dissemination of information to shareholders, stakeholders and general public and their rights to be updated of the Group's activities and performance to enable them to make informed evaluation and investment decision.

To this end, the Group relies on the following channels for effective communication with the shareholders and stakeholders:

- Interim financial reports to provide updates on the Group's operations and business developments on a quarterly basis;
- Annual audited financial statements and annual report to provide an overview of the Group's state of governance, state of affairs, financial performance and cash flows for the relevant financial year;
- Corporate announcements to Bursa Securities on material developments of the Group, as and when necessary and mandated by the Listing Requirements;
- Annual General Meetings; and
- Corporate website under www.henghuat.com.my.

Shareholders and stakeholders may raise their concerns and queries by contacting the Registered Office of the Group, the details of which as provided under the "Corporate Information" section of this Annual Report. The Company has also identified Dato' Juzilman Bin Basir as the Senior Independent Non-Executive Director to whom queries and concerns regarding the Group may be conveyed through his email, juzilman@henghuat.com.my. Notwithstanding that, shareholders and investors may also direct their queries to other Director of the Group as the Board operates in an open environment in which information is freely exchanged among the Board members, with due care exercised to safeguard the confidentiality of the information.

While the Group strives to provide as much information as possible to the shareholders and stakeholders, the Board upholds strict standards of confidentiality with regard to undisclosed material information under all circumstances and is cognisant of the legal and regulatory framework governing the dissemination of information to shareholders and the general public particularly the rules and regulations stipulated under Chapter 9 of the Listing Requirements.

Corporate Governance Compliance Statement

The Board recognises the importance of good corporate governance towards long term sustainability of the Group. The Board always strive to adopt the principles and recommendations promoted by the Code. Save as disclosed within this Annual Report, the Group has, and will continue to apply the principles and recommendations as set out in the Code where practical and appropriate.

This statement was made in accordance with a Board of Directors' resolution dated 18 April 2018.

PRINCIPLE C – INTERGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS (Cont'd)

DIRECTORS' RESPONSIBILITY STATEMENT

In the course of preparing the annual financial statements for the Group and the Company, the Directors reaffirm that they are collectively responsible for ensuring that these financial statements are drawn up in accordance with the requirements of the applicable approved accounting standards in Malaysia, the provisions of the Companies Act, 2016 and the Listing Requirements of Bursa Securities; and that the financial statements give a true and fair view of the financial position, financial performance and cash flows of the Group for the financial year ended 31 December 2017.

To ensure that the financial statements are properly drawn up, the Directors have taken the following measures:

- adopted the relevant Malaysian Financial Reporting Standards and International Financial Reporting Standards;
- applied the appropriate and relevant accounting policies on consistent basis;
- where applicable, made judgements and estimates that are reasonable and prudent;
- prepared the financial statements on going concern basis; and
- ensured that proper accounting records are kept in accordance with the requirements of the Companies Act, 2016 so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors have also made reasonable steps to prevent and detect fraud as well as other irregularities in safeguarding the assets of the Group.

This statement was made in accordance with a Board of Directors' resolution dated 18 April 2018.

SUSTAINABILITY STATEMENT

The Group recognises the significance philosophy of sustainability towards the key stakeholders of the Company, as it believes that the well-doing of the society is essential for the continuous and long-term sustainability of the Group. The Group is committed to ensure ethical conduct of its business activities while striving to maximise the returns to the shareholders. The Group is dedicated to continuously improve its programs and hence, will review and monitor its sustainability policies from time to time to identify areas for enhancement.

The Group's sustainability policies and programs encompass 4 core areas:

- Workplace

  The Group recognises that continuous success is impossible to achieve, without the dedicated efforts and supports from its employees. The Group endeavours to create a safe and healthy working environment for its employees. Where appropriate, revision on employees' remuneration will be made accordingly after consideration of the respective employees' performance and the market rate.

  It is the Group's policy that the production floor is to be maintained neatly organised at all times for safety consideration. Safety officers are assigned to patrol around the production floor to ensure that the production workers adhere to the safety measures.

  In addition to that, an internal emergency response team has been established where regular trainings are provided to equip the team members with first-aid knowledge as well as emergency handling skills. The emergency response team will then conduct in-house briefings from time to time and share the knowledge and skills with other employees.

- Environment

  Environmental protection is embedded into the Group's operations and corporate culture and is one of the elementary competitive strength of the Group's operations. The Group's primary business focus is to convert biomass waste, namely coconut husks and oil palm EFB into biomass materials and value-added products comprising coconut fibre, coconut peat, coconut fibre sheet, oil palm EFB fibre, briquette and geotextiles.

  To enhance the environmental protection, the Group had installed scrubber to its plants to reduce the ash releases into the air and constructed a sludge pool to contain the ash. In addition, the bag filter system is being implemented to enhance the air pollution control system.

  To further minimise the environmental impact of the Group's operations, wastes (by-products from its biomass materials production such as foreign waste materials and short fibre) are reused to generate biomass energy. The biomass energy is then used to supplement the power needs of the manufacture of its biomass materials and value-added products. This helps to reduce its reliance on firewood and lower the risk of pollution.

  In addition to that, the Group maintains careful waste-handling procedures where the wastes are being gathered for subsequent proper disposal to avoid contaminating surrounding public areas.

- Marketplace

  The Group recognises the importance of ethical practices and conducts towards long term sustainable development of its operations. It places strong emphasis on the quality of all products produced and are committed towards ensuring a consistent and reliable supply to its customers according to their requirements. It continually seeks to uphold the quality of its products, particularly its biomass products. Its commitment to quality is testified by the ISO 9001:2008 accreditation attained by the Group's key operating subsidiaries, HK Kitaran Sdn Bhd, HK Gua Musang Sdn Bhd, HK Power Sdn Bhd and HK Palm Fibre Manufacturer Sdn Bhd.

  In January 2017, Fibre Star (M) Sdn Bhd, being one of the principal operating subsidiaries of the Group that involves in the manufacturing and trading of mattresses and related products, has obtained the ISO 9001: 2015 Quality Management System accreditation.

- Marketplace (Cont'd)

  Its entire production process including material handling, fibre production and packing system goes through proper quality checks at various critical points to ascertain that its product quality remains consistent throughout. In addition, it checks all incoming raw materials to ensure that the materials meet pre-determined standards and to reject materials that do not meet specification.

  The Group values the customers and suppliers being its key business partners who contribute to the continuing success of the Group. Accordingly, the Group always maintain active communication with the customers and suppliers and ensure prompt response to the customers' feedback and enquiries.

- Community

  The Group truly appreciates that it should contribute to the community, as the well-being of the community underlies the Group's long term and sustainable development.

  The Group has actively played its social role by taking the opportunity to interact with the local community through direct or indirect involvement in several activities during the year. Therefore, in line with the purpose of promoting a healthy lifestyle, the Group had sponsored various sport events held by the local community. The Group continues to support the community by contributing to numerous volunteer/ community services groups and religion bodies through donation.

  In addition to that, the Group has collaborated with the local non-profit organization and several community groups to supply essential and donation to flood victims during September 2017. The Group has encouraged its employees to participate in this meaningful event along with other members of the public.

  In December 2017, the Group has joined with Penang local state government to organise community-festive culture event "Karnival Pesta Tanglung 2017, I Love Penang".

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board is cognisant of the necessity of establishing a sound risk management and internal control systems in order to support the Group's objectives and to safeguard the shareholders' investments and the Group's assets.

The Board is pleased to present the Statement on Risk Management and Internal Control ("**Statement**") pursuant to Rule 15.26(b) of the Listing Requirements. This Statement has been prepared in accordance with the *Statement on Risk Management and Internal Control ("RMIC"): Guidelines for Directors of Listed Issuers ("Guidelines").*

It is essential to note that the systems of internal control and risk management are designed to manage, supervise and control risks appropriately within a reasonable and practicable level, rather than to eliminate the risk of failure to achieve business objectives. Hence, these systems can only provide reasonable and not absolute assurance against material misstatement of management and financial information, or against financial losses and fraud or breaches of laws and regulations.

The effectiveness of risk management and internal control systems may vary over time due to the ever-changing circumstances and conditions of the Company and the Group. Nevertheless, the Board acknowledges the need for the systems of risk management and internal control to be continuously improved in line with the evolving business development.

OBJECTIVE

The objective of establishing a sound risk management framework and an adequate and effective system of internal control is to safeguard shareholders' investment and the Group's assets, pursuant to the Malaysian Code on Corporate Governance which has come into force in April 2017.

- Outline the Group's risk context which comprise Group's philosophies, strategies and policies and operating system to better manage the business risks faced in today's adversity;
- Provide a guide to Head of Department as to how to govern the action of their operating personnel in relation to risk; and
- Provide assurance to the Board that a sound risk internal control is in place.

RMIC is a structured and disciplined approach alight strategies, processes, people, technology and knowledge with the purpose of evaluating and managing the risk the Group faces as it creates value.

An integrated, future focused and process orientated across functional, divisional and cultural barrier helps the Group manage all key business risk and opportunities with the intent of maximizing shareholders value for the Group as a whole.

DEFINITION OF RISK

Risk may be viewed as the threat of some event, action or loss of opportunity that, if it occurs or become a reality, will adversely either or value to shareholders, ability to achieve the objectives and implement business strategies, manner in conducting the business operation and Group's reputation.

CRITICAL SUCCESS FACTOR FOR RISK MANAGEMENT

The successful management of risk within the Group depends upon limitation as below:

- Risk management being part and parcel of strategy, project and operational planning and activities throughout the Group;
- Risk management is openly accepted and supported by the Group's leadership as providing sound business value; and
- Risk management is to be incorporated into the daily activity and being view as helpful in achieving the Group vision and strategic goal.

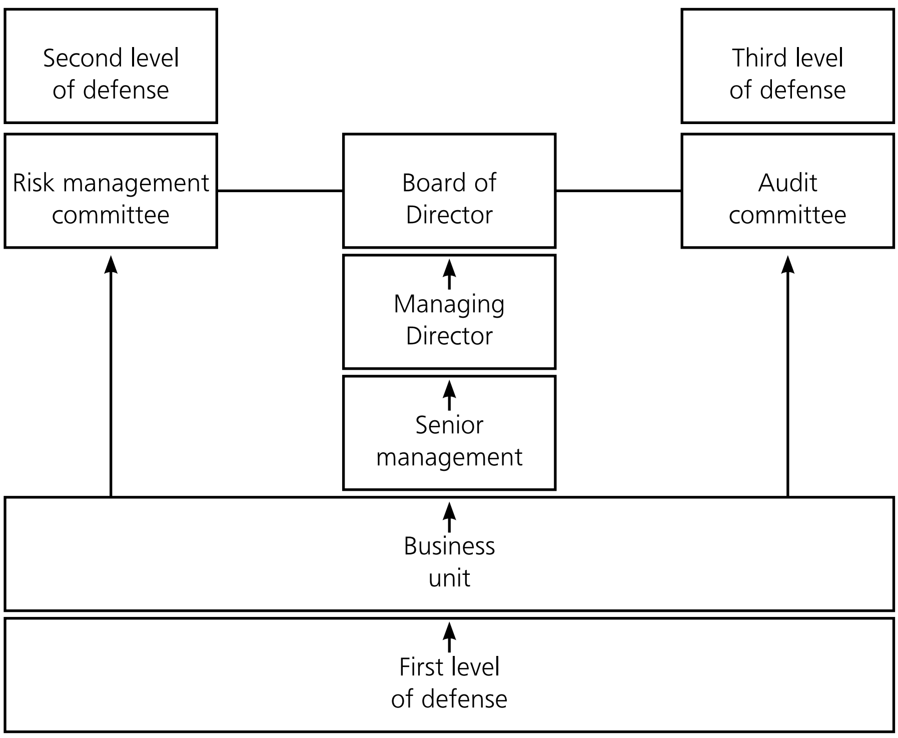
RISK STRUCTURE

Risk management cannot function in isolated silos. An appropriate framework has to be established within the Company to provide the control environment for risk management activities. This framework or structure embedded within the fabric of the Group. Key elements in the risk management structure included the following:

Risk management organisation structure:

- Roles, responsibilities and accountabilities of individual and terms especially the risk manager;
- Use of common terminology, this was communicated to the Executive Director, Managing Director, Head of Departments, Executives and some support staff during the workshop and awareness session; and
- Reporting structure and the frequency of the reporting process will allow red flags or high risk areas to be immediately channeled to the appropriate level for action.

Risk Organisation Structure



RISK MANAGEMENT

During the financial year under review, the Group via its Risk Management Committee ("RMC") conducted 2 meetings to review the key risks faced by the Group. This is to ensure the risk management framework and internal control mechanism that have been put in place remain relevant and capable to reduce the risks to acceptable level.

The RMC will conduct half-yearly review and assessment on the key risks faced by the Group in its ordinary course of business to ensure that all the principal risks are maintained at acceptable level. Material findings, if any, together with additional control measures to be put in place shall be reported to the Board for deliberation.

During the financial year under review, as an initiative to enhance awareness on corporate governance, training had been conducted for the Board and the management personnel as recommended by the RMC. In addition, key risk and action are discussed at Board meetings. The Board will ensure that Management implement all action plans within the agreed timeline. The management shall conduct a half-yearly review to ensure that all key risks are maintain at acceptable level, and material finding (if any) shall be submitted to the Board for deliberation

The Audit Committee will assist in overseeing the internal control aspects of the Group.

INTERNAL CONTROL

Maintaining a robust control structure and environment for the proper conduct of the Group's business operations and towards achieving a sound system of internal control has always been the Board's commitment. The key elements of the Group's system of internal control include:

- A well-defined organisational structure with well-defined scopes of responsibility, clear lines of accountability and appropriate levels of delegated authority. There is a process of hierarchical reporting which provides for a documented and auditable trail of accountability. Delegation of authorities including authorisation limits are clearly defined to ensure accountability and responsibility;

- The Group's Management carry out the monitoring and reviewing of the financial results for all businesses within the Group, including reporting thereon, of performance against the operating plans. The Management then formulate action plans to address any areas of concern;

- Regular Board and Management meetings are held where information is provided to the Board and Management covering financial performances and operations;

- The Board ensure that all recurrent related party transactions are dealt in accordance with the Listing Requirements. These recurrent related party transactions are subject to review by the Audit Committee and the Board at their respective meetings;

- A fully independent Audit Committee consisting exclusively of Independent Non-Executive Directors that monitor and review internal control issues identified by the internal auditors, the external auditors and the Management, and evaluate the adequacy and effectiveness of the risk management and internal control systems; and

- Quarterly meetings for the Audit Committee and Board are held to discuss on quarterly financial reports and issues that warrant the Audit Committee's and the Board's attention.

The Board acknowledges and recognises the importance of the internal audit function in assisting the Board in reviewing the effectiveness of the risk management and internal control system within the Group in safeguarding the shareholders' investments and the Group's assets.

INTERNAL CONTROL (Cont'd)

An independent professional internal audit firm has been engaged by the Group as the Internal Auditors to provide much of the assurance it requires regarding the effectiveness and the adequacy and integrity of the Group's internal control system. To ensure independence, the Internal Auditors report directly to the Audit Committee.

During the financial year under review, the internal audit of the Group was carried out on a risk-based auditing approach in accordance with the 2 years audit plan and scope of works approved by the Audit Committee. The internal audit provides an assessment of the adequacy, efficiency and effectiveness of the Group's internal control system. Recommendations for improvement are presented to the Audit Committee at its quarterly meetings, where necessary.

The internal audit reports are also circulated to the Management for implementation of the recommended improvement action plans. Follow-up reviews are conducted by the Internal Auditors to ascertain whether the recommendations are implemented within the stipulated time frame.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the Listing Requirements, the External Auditors have reviewed this Statement on Risk Management and Internal Control. As set out in their terms of engagement, the procedures were performed in accordance with the Audit and Assurance Practice Guide ("AAPG") 3 issued by Malaysian Institute of Accountants. Based on their procedures performed, the External Auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is not prepared in all material respects, in accordance with the disclosures required by paragraphs 41 and 42 of the Guidelines, nor is it factually inaccurate.

ASSURANCE FROM MANAGEMENT

The Management is accountable to the Board for implementing and monitoring the systems of risk management and internal control and for providing assurance to the Audit Committee and the Board that it has done so. The Board has received assurance from the Managing Director and Chief Financial Officer that the Group's risk management and internal control system are operating adequately and effectively in all material aspects, based on the risk management and internal control system adopted by the Group.

CONCLUSION

The Board has considered the adequacy and effectiveness of the Group's system of risk management and internal control for the year under review, and up to the date of this Statement. The Board is of the view that there is no significant breakdown or weaknesses in the system of internal control of the Group that may result in material losses incurred by the Group for the financial year ended 31 December 2017. The Board and the Management continuously take measures to enhance the control environment and monitor the risk management and internal control framework in meeting the Group's business objectives. This statement was made in accordance with a Board of Directors' resolution dated 18 April 2018.

The Term of Reference is available for reference on the Company's corporate website at www.henghuat.com.my.

AUDIT COMMITTEE REPORT

Composition of Audit Committee

The Audit Committee members are nominated and appointed by the Board and consist of three (3) members as of the date of this report:

• Cheah Swi Chun	Chairman/ Independent Non-Executive Director
• Dato' Juzilman Bin Basir	Member/ Independent Non-Executive Chairman
• Lo Liang Kheng	Member/ Independent Non-Executive Director

Objectives

The Audit Committee ("**Committee**") is established to assist the Board in ensuring timely and accurate financial reporting, proper implementation of risk management policies and internal control, and regulatory compliance.

Authority

(a) The Committee is authorised by the Board to carry out the duties mentioned below and the Board and Management shall give all assistance that is necessary to enable the Committee to discharge its duties.

(b) The Committee shall, whenever necessary and reasonable for the performance of its duties and in accordance with a procedure to be determined by the Board and at the Company's cost:

- have explicit authority to investigate any matter within its terms of reference;
- have the resources which are required to perform its duties;
- have, at the expense of the Company, full/unrestricted access to all information and documents/ resources pertaining to the Company which are required to perform its duties;
- have direct communication channels with the external Auditors, person(s) carrying out the internal audit function or activity (if any) and senior management of the Company;
- be able to obtain external and independent professional or other advice, and to invite outsiders with relevant experience to attend meetings, if necessary; and
- be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary

(c) Procedure of the Committee

The Committee may regulate its own procedure, in particular:

- the calling of meetings;
- the notice to be given of such meetings;
- the voting and proceedings of such meetings;
- the keeping of minutes; and
- the custody, production and inspection of such minutes.

Attendance at Meetings

During the financial year under review, five (5) meetings were held and the details of attendance of each member are as follows:

Members	**Attendance of Meetings**
Cheah Swi Chun	5/5
Dato' Juzilman Bin Basir	5/5
Lo Liang Kheng	4/5

Summary of Activities of the Committee

In discharging its function, the Audit Committee had carried out the following activities during the financial year ended 31 December 2017:

- Financial Reporting

  (a) Reviewed the unaudited quarterly financial reports prior to recommending them to the Board for approval of announcement to Bursa Malaysia Securities Berhad ("Bursa Securities") and Securities Commission ("SC");

  (b) Reviewed the annual audited financial statements of the Company and of the Group for the financial year ended 31 December 2016 prior to recommending it to the Board for approval of announcement to Bursa Securities and SC;

  (c) Reviewed the Audit Committee Report, Statement of Corporate Governance and Statement on Risk Management and Internal Control for inclusion in the Annual Report for the financial year ended 31 December 2016 ("Annual Report 2016") to ensure the contents therein are accurate and in compliance with the Ace Market Listing Requirements ("AMLR") of Bursa Malaysia Securities Berhad;

  (d) Reviewed the list of related party transaction undertaken by the Group during the financial year and confirmed that the transaction was undertaken at arm's length basis and that the terms are not more favourable than those generally available to the public, and that adequate and accurate disclosure was made in compliance with the AMLR; and

  (e) Reviewed the Circular to Shareholders in relation to the Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transaction ("**RRPT Circular**") to Shareholders dated 30 April 2017 before recommending them to the Board for consideration and approval.

- External Auditors

  (a) Reviewed and assessed the suitability and independence of the external auditors. To this end, the Audit Committee had obtained confirmation from the External Auditors on their independence and were not aware of any potential conflict of interest situation;

  (b) Reviewed the performance appraisal of the External Auditors and recommended the Board for their re-appointment for financial year ended 2017;

Summary of Activities of the Committee (Cont'd)

In discharging its function, the Audit Committee had carried out the following activities during the financial year ended 31 December 2017 (Cont'd):

- External Auditors (Cont'd)

  (c) Reviewed and discussed the audit findings in relation to the audited financial statements for the financial year ended 31 December 2016 as well as few internal control areas that required improvement as recommended by the External Auditors. To this end, the Audit Committee had reviewed the findings highlighted, deliberated on the Management's responses thereto and evaluated the recommended improvement action plans to ensure the areas of concern are adequately mitigated;

  (d) Reviewed the scope of work and audit plan tabled by the External Auditors in relation to the statutory audit for the financial year ended 31 December 2017. The Committee had obtained updates from the External Auditors on the new accounting standards, auditing standards and other changes relating to the legal and regulatory requirements that came into effect during the financial year ended 31 December 2017; and

  (e) Held private session (without the presence of the Executive Directors and Management) with the External Auditors twice during the financial year under review.

- Internal Auditors

  (a) Reviewed the internal audit plans and scope of works submitted by the Internal Auditors engaged by the Group;

  (b) Reviewed the internal audit reports submitted by the Internal Auditors, and discussed the findings and recommendations with the Management; and

  (c) Reviewed the performance appraisal of the Internal Auditors and recommended the Board for their re-appointment.

The Audit Committee confirmed that it has been allowed unrestricted communication with both the External and Internal Auditors during the financial year under review, and participations of the Executive Directors and Management in the Committee's meetings were strictly upon invitation.

Subsequent to the financial year end, the Audit Committee had reviewed the following prior to recommending to the Board for approval:

- The audited financial statements of the Company and the Group for the financial year ended 31 December 2017;

- The Audit Committee Report, Corporate Governance Overview Statement, Corporate Governance Report and Statement on Risk Management and Internal Control for inclusion in the Annual Report for the financial year ended 31 December 2017;

- The RRPT Circular dated 30 April 2018; and

- The performance appraisal of the External Auditors for their re-appointment for the financial year ending 31 December 2018.

Internal Audit Function

The Group has outsourced its internal audit function to an external professional internal audit firm, Total Advisors Sdn Bhd ("Internal Auditors").

The Internal Auditors report directly to the Audit Committee. The primary role of the internal audit function is to review the effectiveness of the Group's systems on internal control and this is performed with impartiality, proficiency and due professional care. The internal audit function adopts a risk-based auditing approach by focusing on reviewing identified high risk areas for compliance with control policies and procedures, identifying business risk which have not been appropriately addressed and evaluating the adequacy and effectiveness of controls.

The internal audit function assists the Audit Committee in discharging its duties and responsibilities with respect to the adequacy and effectiveness of the Group's internal control system. In order to maintain the integrity of the internal audit function, the Internal Auditors report directly to the Audit Committee.

During the financial year under review, the Internal Auditors have conducted two (2) reviews:

(a) Report dated February 2017

The areas/departments reviewed include:

i) Corporate governance review;
ii) Safety and security and maintenance review; and
iii) Raw material store.

The findings and recommendations were tabled to the Audit Committee for deliberations. The Internal Auditors have highlighted certain areas for improvement on the covered areas/ departments. Most of the recommendations have been implemented during the financial year under review, as assessed by the Internal Auditors during their follow-up review in June 2017.

(b) Report dated July 2017

The areas/ departments reviewed include:

i) Contra transaction review; and
ii) Account and finance.

The findings and recommendations were tabled to the Audit Committee for deliberations. The Internal Auditors have highlighted certain areas for improvement on the covered areas/ departments. All the recommendations pertaining to the areas/ departments reviewed during this cycle have been implemented during the financial year under review, as assessed by the Internal Auditors during their follow-up review in December 2017.

The total internal audit fees payable for the abovementioned reviews carried out during the financial year under review amounted to RM35,722.

ADDITIONAL COMPLIANCE INFORMATION

AUDIT & NON-AUDIT FEES

	Financial Year Ended 31 December 2017	
	Group	**Company**
	RM	**RM**
Audit fees paid & payable to the external auditors	122,500	17,000
Non-Audit fees paid & payable to the affiliated firm of the external auditor for advisory and corporate tax compliance services rendered	44,850	1,950
	167,350	18,950

MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS' INTEREST

There were no material contracts (not being contracts entered into in the ordinary course of business) which had been entered into by the Company and its subsidiaries involving the interests of the Directors and major shareholders, either still subsisting at the end of the financial year or entered into since the end of the previous financial year.

CONTRACT RELATING TO LOAN BY THE COMPANY

There was no contract relating to loan entered into by the Company and its subsidiaries involving the interest of the Directors and major shareholders of the Company.

RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("RRPTs")

Details on the RRPTs entered into by the Group during the financial year under review are disclosed under Note 29 to the Financial Statements on page 117 to 118 of this Annual Report. The Company is also seeking shareholders' approval for the proposed renewal of shareholders' mandate for RRPTs in the forthcoming AGM. The details of the RRPTs to be entered into by the Group with the related party are included in the Circular to Shareholders.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 8 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	GROUP RM	COMPANY RM
Profit/(Loss) for the financial year	267,628	(1,382,002)
Attributable to:		
Owners of the parent	366,406	(1,382,002)
Non-controlling interests	(98,778)	0
	267,628	(1,382,002)

DIVIDEND

No dividend has been paid or declared by the Company since the end of the previous financial year. The Directors do not recommend any payment of dividend for the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than the effects of adoption of Companies Act, 2016 as disclosed in Note 14 to the financial statements.

ISSUE OF SHARES AND DEBENTURES

The Company did not issue any shares and debentures during the financial year.

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued ordinary shares of the Company during the financial year.

DIRECTORS

The Directors who have held office since the date of last report are:

Dato' Juzilman Bin Basir

Dato' H'ng Choon Seng

Kee Swee Lai

Lim Ghim Chai

Datin Khor Mooi Kim

Lo Liang Kheng

Cheah Swi Chun

Khor Teik Boon *

Teh Chai Luang ^

* Resigned and appointed as Alternate Director to Dato' H'ng Choon Seng on 28 December 2017.
^ Resigned and appointed as Alternate Director to Kee Swee Lai on 28 December 2017.

The Directors of subsidiaries who have held office since the date of the last report and at the date of this report, not including those Directors listed above are:

Ruhani Binti Ismail

Kuah Choon Hoay (Resigned on 22 May 2017)

Liew Chai Hook (Resigned on 22 May 2017)

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in ordinary shares of the Company and of its related corporations during the financial year ended 31 December 2017 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act, 2016 in Malaysia were as follows:

	Number of ordinary shares			
	Balance as at 1.1.2017	**Bought**	**Sold**	**Balance as at 31.12.2017**
Shares in the Company				
Direct interests:				
Dato' H'ng Choon Seng	116,558,877	35,595,418	(38,272,418)	113,881,877
Kee Swee Lai	62,624,804	13,970,000	(13,970,000)	62,624,804
Lim Ghim Chai	5,500,000	2,500,000	(7,500,000)	500,000
Datin Khor Mooi Kim	6,768,570	0	0	6,768,570
Lo Liang Kheng	85,000	0	(85,000)	0
Khor Teik Boon *	1,719,000	0	0	1,719,000
Teh Chai Luang ^	7,404,780	780,000	(750,000)	7,434,780
Indirect interests:				
Dato' H'ng Choon Seng #	6,187,500	7,000,000	(6,723,000)	6,464,500
Khor Teik Boon *~	1,009,500	0	0	1,009,500

* Alternate Director to Dato' H'ng Choon Seng.

^ Alternate Director to Kee Swee Lai.

\# *Deemed interested by virtue of his shareholding in Heng Huat Manufacturer Sdn. Bhd. pursuant to Section 8 of the Companies Act, 2016 and shares held by his daughter.*

~ *Deemed interested through the shareholdings of his spouse to Section 59(11)(c) of the Companies Act, 2016 in Malaysia.*

By virtue of their interests in the ordinary shares of the Company, Dato' H'ng Choon Seng and Kee Swee Lai are also deemed to be interested in the ordinary shares of all the subsidiaries to the extent the Company has an interest.

The interest and deemed interest in the ordinary shares of its non-wholly owned subsidiaries, held by Dato' H'ng Choon Seng and Kee Swee Lai were as follows:

	Number of ordinary shares			
	Balance as at 1.1.2017	**Bought**	**Sold**	**Balance as at 31.12.2017**
Shares in the subsidiaries				
HK Fibre Sdn.Bhd.				
Indirect interests:				
Dato' H'ng Choon Seng	485,000	0	0	485,000
Kee Swee Lai	485,000	0	0	485,000
Sabut Kelapa Saujana Setiu Terengganu Sdn. Bhd.				
Indirect interests:				
Dato' H'ng Choon Seng	0	97	0	97
Kee Swee Lai	0	97	0	97

DIRECTORS' INTERESTS (cont'd)

None of the other Directors holding office at the end of the financial year held any beneficial interest in ordinary shares of the Company and of its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors have received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than the transactions entered into in the ordinary course of business with companies in which the Directors of the Company have substantial financial interests as disclosed in Note 29 to the financial statements.

There were no arrangements during and at the end of the financial year, to which the Company is a party, which had the object of enabling the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REMUNERATION

Fees and other benefits of the Directors who held office during the financial years ended 31 December 2017 and 31 December 2016 are as follows:

	GROUP		COMPANY	
	2017 RM	2016 RM	2017 RM	2016 RM
Fees	132,000	121,500	132,000	121,500
Salaries	2,316,000	2,314,000	369,000	159,000
Bonus	1,023,100	1,023,100	131,000	0
Others	419,552	414,760	69,673	24,677
	3,890,652	3,873,360	701,673	305,177

INDEMNITY AND INSURANCE FOR OFFICERS AND AUDITORS

There were no indemnity given to or insurance effected for the officers and auditors of the Group and of the Company during the financial year.

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

(a) Before the financial statements of the Group and of the Company were prepared, the Directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate provision have been made for doubtful debts; and

(ii) to ensure that any current assets other than debts, which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

(b) In the opinion of the Directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature, other than those disclose in Note 33 to the financial statements.

(II) FROM THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT

(c) The Directors are not aware of any circumstances:

(i) which would render the amount of written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any material extent;

(ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading; and

(iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) In the opinion of the Directors:

(i) there has not arisen any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and of the Company for the financial year in which this report is made; and

(ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve (12) months after the end of the financial year which would or may affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

(III) AS AT THE DATE OF THIS REPORT

(e) There are no charges on the assets of the Group and of the Company which have arisen since the end of the financial year to secure the liabilities of any other person.

(f) There are no contingent liabilities of the Group and of the Company which have arisen since the end of the financial year.

(g) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

Significant event during the financial year is disclosed in Note 33 to the financial statements.

AUDITORS

The auditors, BDO, have expressed their willingness to continue in office.

Auditors' remuneration of the Company and its subsidiaries for the financial year ended 31 December 2017 amounted to RM17,000 and RM105,500 respectively.

Signed on behalf of the Board in accordance with a resolution of the Directors.

Lim Ghim Chai	**Kee Swee Lai**
Director	Director

Penang
18 April 2018

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 65 to 143 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

On behalf of the Board,

Lim Ghim Chai	**Kee Swee Lai**
Director	Director

Penang
18 April 2018

STATUTORY DECLARATION

I, Lim Ghim Chai (MIA Number: 22403), being the Director primarily responsible for the financial management of Heng Huat Resources Group Berhad, do solemnly and sincerely declare that the financial statements set out on pages 65 to 143 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed at Georgetown in the State of Penang this 18 April 2018

Lim Ghim Chai

Before me,

Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENG HUAT RESOURCES GROUP BERHAD
(Incorporated in Malaysia)

Opinion

We have audited the financial statements of Heng Huat Resources Group Berhad, which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and the 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 65 to 143.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 2016 in Malaysia.

Basis of Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group and of the Company in accordance with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")*, and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade receivables

As at 31 December 2017, trade receivables that had been past due not impaired were RM9,843,587. The details of trade and other receivables and its credit risk have been disclosed in the Note 11 and Note 31(i) to the financial statements.

Management recognised impairment losses on trade receivables based on specific known facts or circumstances or customers' abilities to pay.

The determination of whether trade receivables are recoverable involves significant management judgement.

Key Audit Matters (cont'd)

Audit response

Our audit procedures included the following:

(i) assessed the recoverability of trade receivables by reference to their historical bad debt expense, ageing profiles of the counter parties and past historical repayment trends; and

(ii) assessed cash receipts subsequent to the end of the reporting period for its effect in reducing amounts outstanding as at the end of the reporting period.

We have determined that there are no key audit matters to communicate in our report in respect of the audit of the financial statements of the Company.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with MFRSs, IFRSs and the requirements of the Companies Act, 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing ability of the Group and of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal controls relevant to the audit 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 internal control of the Group and of the Company.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Group and of the Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act, 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

BDO
AF : 0206
Chartered Accountants

Lee Beng Tuan
3271/07/18 (J)
Chartered Accountant

Penang
18 April 2018

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	**2016**	**2017**	**2016**
	Note	**RM**	**RM**	**RM**	**RM**
ASSETS					
Non-current assets					
Property, plant and equipment	6	105,259,473	105,373,140	566,203	580,877
Intangible assets	7	4,257,871	5,456,727	0	0
Investments in subsidiaries	8	0	0	31,230,097	19,430,000
		109,517,344	110,829,867	31,796,300	20,010,877
Current assets					
Inventories	9	11,077,699	7,415,118	0	0
Derivative asset	10	131,048	0	0	0
Trade and other receivables	11	37,708,406	29,288,236	10,392,583	17,236,385
Current tax assets		232,612	381,204	16,433	0
Cash and bank balances	12	9,451,307	11,397,052	36,417	208,797
		58,601,072	48,481,610	10,445,433	17,445,182
TOTAL ASSETS		168,118,416	159,311,477	42,241,733	37,456,059

The accompanying notes form an integral part of the financial statements.

		GROUP		COMPANY	
		2017	**2016**	**2017**	**2016**
	Note	**RM**	**RM**	**RM**	**RM**
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	13	36,324,129	30,870,005	36,324,129	30,870,005
Reserves	14	43,003,536	44,965,846	(1,696,006)	5,140,120
		79,327,665	75,835,851	34,628,123	36,010,125
Non-controlling interests		482,568	3,706,753	0	0
TOTAL EQUITY		79,810,233	79,542,604	34,628,123	36,010,125
LIABILITIES					
Non-current liabilities					
Borrowings	15	21,656,206	25,516,185	128,960	202,533
Deferred tax liabilities	19	1,944,801	732,086	11,100	11,100
		23,601,007	26,248,271	140,060	213,633
Current liabilities					
Trade and other payables	20	27,954,666	22,681,786	7,335,978	1,086,639
Derivative liability	10	0	521,930	0	0
Borrowings	15	36,399,519	30,193,252	137,572	119,562
Current tax liabilities		352,991	123,634	0	26,100
		64,707,176	53,520,602	7,473,550	1,232,301
TOTAL LIABILITIES		88,308,183	79,768,873	7,613,610	1,445,934
TOTAL EQUITY AND LIABILITIES		168,118,416	159,311,477	42,241,733	37,456,059

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	**2016**	**2017**	**2016**
	Note	**RM**	**RM**	**RM**	**RM**
Revenue	23	115,241,563	84,575,179	0	0
Cost of sales	24	(76,389,705)	(55,231,884)	0	0
Gross profit		38,851,858	29,343,295	0	0
Other operating income		1,398,125	2,093,269	1,060,997	985,321
Selling and distribution cost		(20,750,798)	(15,897,681)	0	0
Administrative and other expenses		(13,996,270)	(13,136,999)	(2,107,424)	(1,424,560)
Finance costs	25	(3,258,937)	(1,701,065)	(338,871)	(28,855)
Profit/(Loss) before tax		2,243,978	700,819	(1,385,298)	(468,094)
Tax expense	26	(1,976,350)	(614,062)	3,296	(200,020)
Profit/(Loss) for the financial year		267,628	86,757	(1,382,002)	(668,114)
Other comprehensive income, net of tax		0	0	0	0
Total comprehensive income/(loss)		267,628	86,757	(1,382,002)	(668,114)

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONT'D)

		GROUP		COMPANY	
		2017	**2016**	**2017**	**2016**
	Note	**RM**	**RM**	**RM**	**RM**
Profit/(Loss) for the financial year attributable to:					
Owners of the parent		366,406	45,153	(1,382,002)	(668,114)
Non-controlling interests		(98,778)	41,604	0	0
		267,628	86,757	(1,382,002)	(668,114)
Total comprehensive income/(loss) attributable to:					
Owners of the parent		366,406	45,153	(1,382,002)	(668,114)
Non-controlling interests		(98,778)	41,604	0	0
		267,628	86,757	(1,382,002)	(668,114)
Earnings per ordinary share attributable to equity holders of the the Company (sen):					
Basic	27	0.12	0.01		
Diluted	27	0.12	0.01		

The accompanying notes form an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	← Non-distributable		→	Distributable			
	Share capital	**Share premium**	**Reorganisation debit reserve**	**Retained earnings**	**Total attributable to owners of the parent**	**Non-controlling interests**	**Total equity**
Group	**RM**	**RM**	**RM**	**RM**	**RM**	**RM**	**RM**
Balance as at 1 January 2016	30,870,005	5,454,124	(5,185,000)	44,651,569	75,790,698	5,255,149	81,045,847
Profit for the financial year	0	0	0	45,153	45,153	41,604	86,757
Other comprehensive income, net of tax	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	45,153	45,153	41,604	86,757
Transaction with owners							
Dividend paid to non-controlling interest of a subsidiary	0	0	0	0	0	(1,590,000)	(1,590,000)
Total transaction with owners	0	0	0	0	0	(1,590,000)	(1,590,000)
Balance as at 31 December 2016	30,870,005	5,454,124	(5,185,000)	44,696,722	75,835,851	3,706,753	79,542,604

The accompanying notes form an integral part of the financial statements.

Group	Share capital RM	Share premium RM	Reorganisation debit reserve RM	Retained earnings RM	Total attributable to owners of the parent RM	Non-controlling interests RM	Total equity RM
	← Non-distributable		→	Distributable			
Balance as at 1 January 2017	30,870,005	5,454,124	(5,185,000)	44,696,722	75,835,851	3,706,753	79,542,604
Profit for the financial year	0	0	0	366,406	366,406	(98,778)	267,628
Other comprehensive income, net of tax	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	366,406	366,406	(98,778)	267,628
Transaction with owners							
Acquisition of a subsidiary (Note 8)	0	0	0	0	0	3	3
Acquisition of shares from non-controlling interests (Note 8)	0	0	0	3,125,408	3,125,408	(3,125,410)	(2)
Total transaction with owners	0	0	0	3,125,408	3,125,408	(3,125,407)	1
Transfer pursuant to Companies Act, 2016 (Note 13)	5,454,124	(5,454,124)	0	0	0	0	0
Balance as at 31 December 2017	36,324,129	0	(5,185,000)	48,188,536	79,327,665	482,568	79,810,233

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Company	Share capital RM	Share premium RM	(Accumulated losses)/ Retained earnings RM	Total equity RM
	← Non-distributable	→		
Balance as at 1 January 2016	30,870,005	5,454,124	354,110	36,678,239
Loss for the financial year	0	0	(668,114)	(668,114)
Other comprehensive income, net of tax	0	0	0	0
Total comprehensive loss	0	0	(668,114)	(668,114)
Balance as at 31 December 2016	30,870,005	5,454,124	(314,004)	36,010,125
Balance as at 1 January 2017	30,870,005	5,454,124	(314,004)	36,010,125
Loss for the financial year	0	0	(1,382,002)	(1,382,002)
Other comprehensive income, net of tax	0	0	0	0
Total comprehensive loss	0	0	(1,382,002)	(1,382,002)
Transfer pursuant to Companies Act, 2016 (Note 13)	5,454,124	(5,454,124)	0	0
Balance as at 31 December 2017	36,324,129	0	(1,696,006)	34,628,123

The accompanying notes form an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

		GROUP		COMPANY	
		2017	**2016**	**2017**	**2016**
	Note	**RM**	**RM**	**RM**	**RM**
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(Loss) before tax		2,243,978	700,819	(1,385,298)	(468,094)
Adjustments for:					
Amortisation of intangible assets					
- development costs	7	1,197,163	312,785	0	0
- trademarks	7	155	236	0	0
Bad debts written off		131,043	57,673	0	0
Depreciation of property, plant and equipment	6	10,255,978	7,989,806	128,970	40,092
Loss in relation to fire damage		565,831	0	0	0
Fair value adjustment on derivative asset/liability	10	(652,978)	413,628	0	0
Gain on disposal of property, plant and equipment		(21,866)	(73,539)	0	0
Impairment losses on:					
- investments in subsidiaries	8	0	0	0	204,953
- trade receivables	11	302,735	110,713	0	0
- other receivables	11	14,125	0	0	0
Property, plant and equipment written off		29,167	9,141	0	0
Reversal of impairment losses on trade receivables	11	(88,249)	(483,357)	0	0
Unrealised gain on foreign exchange		(1,331,531)	(710,802)	0	0
Interest expense	25	3,258,937	1,701,065	338,871	28,855
Interest income		(94,119)	(78,821)	(1,060,997)	(985,321)
Operating profit/(loss) before changes in working capital		15,810,369	9,949,347	(1,978,454)	(1,179,515)
(Increase)/Decrease in inventories		(4,289,086)	201,940	0	0
(Increase)/Decrease in trade and other receivables		(7,067,430)	3,528,377	(4,892,198)	100,636
Increase in trade and other payables		5,275,918	4,606,575	6,249,339	541,146
Cash generated from/(used in) operations		9,729,771	18,286,239	(621,313)	(537,733)
Tax paid		(936,168)	(292,232)	(39,237)	(245,677)
Tax refunded		550,482	0	0	0
Net cash from/(used in) operating activities		9,344,085	17,994,007	(660,550)	(783,410)

The accompanying notes form an integral part of the financial statements.

		GROUP		COMPANY	
		2017	2016	2017	2016
	Note	RM	RM	RM	RM
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of interests in subsidiaries	8(c)	0	0	(97)	0
Acquisition of shares from non-controlling interests	8(a)	(2)	0	0	0
Interest received		94,119	78,821	1,060,997	985,321
Changes in deposits pledged with licensed banks		147,394	(189,791)	0	0
Development costs incurred	7	(1,500)	(4,808,444)	0	0
Purchase of property, plant and equipment	6(a)	(8,915,854)	(23,283,393)	(114,296)	(126,116)
Proceeds from issuance of shares to non-controlling interests		3	0	0	0
Proceeds from disposal of property, plant and equipment		1,445,862	1,655,909	0	0
Net cash (used in)/from investing activities		(7,229,978)	(26,546,898)	946,604	859,205
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend paid to non-controlling interests of a interests of a subsidiary		0	(1,590,000)	0	0
Drawdown of term loans		2,925,050	11,654,830	0	0
Interest paid		(3,258,937)	(1,701,065)	(338,871)	(28,855)
Repayment of hire purchase payables		(5,540,179)	(4,676,015)	(119,563)	(47,906)
Drawdown of bankers' acceptances		1,563,000	4,929,000	0	0
Repayment of term loans		(5,146,583)	(2,288,969)	0	0
Net cash (used in)/from financing activities		(9,457,649)	6,327,781	(458,434)	(76,761)
Net decrease in cash and cash equivalents		(7,343,542)	(2,225,110)	(172,380)	(966)
Effect of exchange rate changes on cash and cash equivalents		95,400	0	0	0
Cash and cash equivalents at beginning of financial year		2,434,391	4,659,501	208,797	209,763
Cash and cash equivalents at end of financial year	12(a)	(4,813,751)	2,434,391	36,417	208,797

The accompanying notes form an integral part of the financial statements.

		Borrowings, exclude bank overdraft (Note 15)	
		Group	**Company**
	Note	**RM**	**RM**
As at 1 January 2017		49,296,926	322,095
Cash flows		(6,198,712)	(119,563)
Purchase of property, plant and equipment financed by hire purchase arrangements	6(a)	3,095,209	0
Purchase of property, plant and equipment financed by hire purchase arrangements on behalf of a subsidiary		0	64,000
As at 31 December 2017		46,193,423	266,532

The accompanying notes form an integral part of the financial statements.

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the ACE Market of Bursa Malaysia Securities Berhad.

The registered office of the Company is located at 39 Salween Road, 10050 Penang.

The principal place of business of the Company is located at Lot 2945 (Plot A2), Jalan Sungai Baong, Kawasan Perindustrian Perabut, Mukim 5, Sungai Baong, 14200 Sungai Bakap, Seberang Perai Selatan, Penang.

The consolidated financial statements for the financial year ended 31 December 2017 comprise the financial statements of the Company and its subsidiaries. These financial statements are presented in Ringgit Malaysia ('RM'), which is also the functional currency of the Company.

The financial statements were authorised for issue in accordance with a resolution by the Board of Directors on 18 April 2018.

2. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 8 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (‘MFRSs’), International Financial Reporting Standards (‘IFRSs’) and the provisions of the Companies Act, 2016 in Malaysia.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 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, and also on the basis of accounting principles applicable to a going concern.

The Directors have considered the application of the going concern basis in the preparation of financial statements to be appropriate, given the ability of the Group and of the Company to generate adequate net cash inflows in the foreseeable future. In relation to this, the Group and the Company have assessed its cash flow position for the next twelve months to ensure that the Group and the Company have sufficient funds to meet its obligations as and when they fall due.

The preparation of financial statements in conformity with MFRSs requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and 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 Note 5 to the financial statements. Although these estimates and assumptions are based on the Directors’ best knowledge of events and actions, actual results could differ from those estimates.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(a) Power over the investee;
(b) Exposure, or rights, to variable returns from its involvement with the investee; and
(c) The ability to use its power over the investee to affect its returns.

If the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) The contractual arrangement with the other vote holders of the investee;
(b) Rights arising from other contractual arrangements; and
(c) The voting rights of the Group and potential voting rights.

Intragroup balances, transactions, income and expenses are eliminated on consolidation. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the interest of the Group 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 the Group.

Non-controlling interests represent the equity in subsidiaries that are not attributable, directly or indirectly, to owners of the parent, and is presented separately in the consolidated statement of profit or loss and other 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.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. 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. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.2 Basis of consolidation (cont'd)

If 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 joint venture.

4.3 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:

(a) 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;

(b) 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 Paymen*t at the acquisition date; and

(c) 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 services 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:

(a) If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity.

(b) Subsequent changes to contingent consideration classified as an asset or liability that is a financial instrument within the scope of MFRS 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.3 Business combinations (cont'd)

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.

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 are initially measured at fair value. 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 basis is made on an 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.

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 (if any), and the fair value of the previously held equity interest of the Group in the acquiree (if any), 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 Note 4.6(a) to the financial statements. 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.

4.4 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 would 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.

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 accumulated depreciation and any accumulated impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.4 Property, plant and equipment and depreciation (cont'd)

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 depreciation period and annual rates are as follows:

Short term leasehold land	36 years
Long term leasehold land	81 years
Factory building	2%
Signboard	10%
Renovation	10%
Furniture, fittings and office equipment	10%
Computers	40%
Container	10%
Electrical installation	10%
Machinery and equipment	10%
Motor vehicles	10% - 20%

Freehold land has unlimited useful life and is not depreciated. Capital work-in-progress represents machinery under installation and is stated at cost. Capital work-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 Note 4.8 to the financial statements 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.

4.5 Investments in subsidiaries

A subsidiary is an entity in which the Group and the Company are exposed, or have rights, to variable returns from its involvement with the subsidiary and have the ability to affect those returns through its power over the subsidiary.

An investment in subsidiary, which is eliminated on consolidation, is stated in the separate financial statements of the Company at cost less accumulated impairment losses, if any. 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 (or included in a disposal group that is classified as held for sale) in accordance with MFRS 5.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.5 Investments in subsidiaries (cont'd)

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 when control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

4.6 Intangible assets

(a) 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 (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the interest of the Group 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 (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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 could be impaired. Objective events that would trigger a more frequent impairment review include adverse industry or economic trends, significant restructuring actions, significantly lowered projections of profitability, or a sustained decline in the acquiree's market capitalisation. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Other intangible assets

Other intangible assets are recognised only when the identifiability, control and future economic benefit probability criteria are met.

The Group recognises at the acquisition date separately from goodwill, an intangible asset of the acquiree, irrespective of whether the asset had been recognised by the acquiree before the business combination. In-process research and development projects acquired in such combinations are recognised as an asset even if subsequent expenditure is written off because the criteria specified in the policy for research and development is not met.

Intangible assets are initially measured at cost. The cost of intangible assets recognised in a business combination is their fair values as at the date of acquisition.

After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the estimated economic useful lives and are assessed for any indication that the asset could be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.6 Intangible assets (cont'd)

(b) Other intangible assets (cont'd)

Expenditure on an intangible item that is initially recognised as an expense is not recognised as part of the cost of an intangible asset at a later date.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from the derecognition determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset is recognised in profit or loss when the asset is derecognised.

Research and development

Expenditure on development activities of internally developed products is recognised as an intangible asset when it relates to the production of new or substantively improved products and processes and when the Group can demonstrate that it is technically feasible to develop the product or processes, adequate resources are available to complete the development and that there is an intention to complete and sell the product or processes to generate future economic benefits.

Capitalised development costs are amortised on a straight line basis over a period of five (5) years. Development expenditure not satisfying the criteria mentioned and expenditure arising from research or from the research phase of internal projects are recognised in profit or loss as incurred.

Development assets are tested for impairment annually.

Trademarks

Acquired trademarks have finite useful lives and are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight line method to allocate the cost of trademarks over their estimated useful lives of ten (10) years.

4.7 Leases and hire purchase

(a) 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 leased assets or, if lower, the present value of minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the leases, if this is practicable to determine; if not, the incremental borrowing rate of the Group 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 lease 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 lease term so as to produce a constant periodic rate of interest on the remaining lease and hire purchase liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.7 Leases and hire purchase (cont'd)

(b) Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Lease payment under operating lease are recognised as an expense on a straight line basis over the lease term.

(c) Leases of land and buildings

For leases of land and buildings, the land and buildings elements are considered separately for the purpose of lease classification and these leases are classified as operating or finance leases in the same way as leases of other assets.

The minimum lease payments including any lump-sum upfront payments made to acquire the interest in the land and buildings are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and the buildings element of the lease at the inception of the lease.

For a lease of land and buildings in which the amount that would initially be recognised for the land element is immaterial, the land and buildings are treated as a single unit for the purpose of lease classification and is accordingly classified as a finance or operating lease. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

4.8 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 CGU or groups of CGU of the Group 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.8 Impairment of non-financial assets (cont'd)

In estimating 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.

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 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.

4.9 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 raw materials and packing materials comprises all costs of purchase, cost of conversion plus other costs incurred in bringing the inventories to their present location and condition. The cost of work-in-progress and 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 course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4.10 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.10 Financial instruments (cont'd)

Financial instruments are recognised on the statements 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 characteristics and risks of the embedded derivative is not closely related to the economic characteristics and risks of the host contract, a separate instrument with the 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.

(a) Financial assets

A financial asset is classified into the following four (4) categories after initial recognition for the purpose of subsequent measurement:

(i) 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 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 fair value through profit or loss are recognised in profit or loss.

However, derivatives that are 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.

(ii) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.10 Financial instruments (cont'd)

(a) Financial assets (cont'd)

(iii) 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.

(iv) 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 right of the Group to receive payment is established.

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three (3) months or less, and are used by the Group and the Company in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.10 Financial instruments (cont'd)

(b) 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:

(i) 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.

Subsequent to initial recognition, financial liabilities classified as 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 fair value through profit or loss are recognised in profit or loss.

(ii) 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.

Any 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.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Group and the Company designate corporate guarantees given to banks for credit facilities granted to subsidiaries as insurance contracts as defined in MFRS 4 *Insurance Contracts*. The Group and the Company recognise these insurance contracts as recognised insurance liabilities 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 would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.10 Financial instruments (cont'd)

(b) Financial liabilities (cont'd)

At the end of each reporting period, the Group and the Company assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If this assessment shows that the carrying amount of the insurance liabilities is inadequate, the entire deficiency shall be recognised in profit or loss.

Recognised insurance liabilities are only removed from the statement of financial position when, and only when, it is extinguished via a discharge, cancellation or expiration.

(c) 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.

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.

The Group measures a liability to distribute non-cash assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting date and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Group recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

4.11 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.

<u>Loans and receivables</u>

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 by the receivable, 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 is reduced through the use of an allowance account.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.11 Impairment of financial assets (cont'd)

Loans and receivables (cont'd)

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.

4.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or production of a qualified asset is capitalised as part of the cost of the asset until when substantially all the activities necessary to prepare the asset for its intended use or sale are complete, after which such expense is charged to profit or loss. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing cost is suspended during extended periods in which active development is interrupted.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on the borrowing during the period less any investment income on the temporary investment of the borrowing.

All other borrowing cost is recognised in profit or loss in the period in which they are incurred.

4.13 Income taxes

Income taxes include all taxes on taxable profit. Income taxes also include other taxes, such as withholding taxes and real property gains taxes payable on the disposal of properties.

Taxes in the statements of profit or loss and other comprehensive income comprise current tax and deferred tax.

(a) Current tax

Current tax expenses are determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits and real property gains taxes payable on disposal of properties.

(b) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.13 Income taxes (cont'd)

(b) Deferred tax (cont'd)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits would 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 would 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 would be reduced accordingly. When it becomes probable that sufficient taxable profits would be available, such reductions would 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 would 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 would 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 the announcement of tax rates by the Government in the annual budgets which have the substantive effect of actual enactment by the end of each reporting period.

4.14 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events whose existence would 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 would 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 would 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.15 Employee benefits

(a) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are measured on an undiscounted basis and are expensed when employees 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 and they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the Group.

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.

(b) Defined contributions plans

The Company and its subsidiaries make 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.

4.16 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Ringgit Malaysia, which is the functional and presentation currency of the Company.

(b) Foreign currency translations and balances

Transactions in foreign currencies are converted into functional currency at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of each reporting period are translated into functional currency 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.17 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables, net of discounts and rebates.

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction would 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 activities of the Group as follows:

(a) 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 no continuing managerial involvement over the goods, which coincides with the delivery of goods and acceptance by customers, net of discounts.

(b) Dividend income

Dividend income is recognised when the right to receive payment is established.

(c) Interest income

Interest income is recognised as it accrues, using the effective interest method.

(d) Rental income

Rental income is accounted for on a straight line basis over the lease term of an ongoing lease.

4.18 Operating segments

Operating segments are defined as components of the Group that:

(a) Engages in business activities from which it could earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);

(b) Whose operating results are regularly reviewed by the chief operating decision maker of the Group in making decisions about resources to be allocated to the segment and assessing its performance; and

(c) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues.

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is ten percent (10%) or more of the combined revenue, internal and external, of all operating segments.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.18 Operating segments (cont'd)

An operating segment may engage in business activities for which it has yet to earn revenues. (cont'd)

(b) The absolute amount of its reported profit or loss is ten percent (10%) or more of the greater, in absolute amount of:

 (i) The combined reported profit of all operating segments that did not report a loss; and

 (ii) The combined reported loss of all operating segments that reported a loss.

(c) Its assets are ten percent (10%) or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

Total external revenue reported by operating segments shall constitute at least seventy-five percent (75%) of the revenue of the Group. Operating segments identified as reportable segments in the current financial year in accordance with the quantitative thresholds would result in a restatement of prior period segment data for comparative purposes.

4.19 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.

(b) Diluted

Diluted 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 adjusted for the effects of dilutive potential ordinary shares.

4.20 Fair value measurements

The fair value of an asset or a liability, except for lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

The Group measures the fair value of an asset or a liability by taking into account the characteristics of the asset or liability if market participants would take these characteristics into account when pricing the asset or liability. The Group has considered the following characteristics when determining fair value:

(a) The condition and location of the asset; and
(b) Restrictions, if any, on the sale or use of the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

4.20 Fair value measurements (cont'd)

The fair value measurement for a non-financial asset takes into account the ability of the market participant to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of a financial or non-financial liability or an entity's own equity instrument assumes that:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the management of the Group and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Impairment of receivables

Management recognised allowances for impairment losses on trade receivables based on specific known facts or circumstances on customers' abilities to pay.

The determination of whether the trade receivables are recoverable involves significant management judgement and inherent subjectivity given the uncertainty regarding the ability of the trade receivables to settle their debts. Management focused on the risk that the trade receivables may be overstated and hence, further impairment losses may be required.

6. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM	Short term leasehold land RM	Long term leasehold land RM	Factory building RM	Signboard RM	Renovation RM	Furniture, fittings and office equipment RM	Computers RM	Container RM	Electrical installation RM	Machinery and equipment RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
At cost														
At 1 January 2017	7,056,749	3,919,383	1,067,927	28,769,270	38,922	1,638,373	984,922	398,634	485,384	3,884,853	63,527,704	13,690,488	10,748,487	136,211,096
Additions	0	0	0	1,495,155	0	101,848	84,337	30,120	0	0	1,936,533	2,097,560	6,265,510	12,011,063
Disposals	0	(104,772)	0	(427,478)	0	0	(28,814)	(11,135)	(125)	0	(527,379)	(1,228,001)	0	(2,327,704)
Written-off	0	0	0	0	(2,294)	(7,260)	(23,788)	(98)	(10,200)	0	(690,165)	0	0	(733,805)
Loss in relation to fire damage	0	0	0	0	0	0	0	0	0	0	(415,387)	(202)	0	(415,589)
Reclassification	417,312	0	0	8,700	0	0	(48)	3,400	0	54,086	13,075,434	0	(13,558,884)	0
At 31 December 2017	7,474,061	3,814,611	1,067,927	29,845,647	36,628	1,732,961	1,016,609	420,921	475,059	3,938,939	76,906,740	14,559,845	3,455,113	144,745,061
Accumulated depreciation														
At 1 January 2017	0	154,235	29,337	2,286,258	12,674	846,393	408,127	111,558	169,688	1,759,392	18,636,416	6,389,810	0	30,803,888
Current charge	0	107,424	9,779	701,106	2,537	168,987	148,996	30,118	9,168	386,852	7,440,518	1,250,493	0	10,255,978
Disposals	0	(43)	0	(9,974)	0	0	(7,088)	(2,852)	(18)	0	(44,240)	(839,493)	0	(903,708)
Written-off	0	0	0	0	(2,092)	(998)	(19,134)	(13)	(10,198)	0	(672,203)	0	0	(704,638)
At 31 December 2017	0	261,616	39,116	2,977,390	13,119	1,014,382	530,901	138,811	168,640	2,146,244	25,360,491	6,800,810	0	39,451,520
Accumulated impairment														
At 1 January 2017/ 31 December 2017	0	0	0	0	0	0	0	0	0	0	34,068	0	0	34,068
Carrying amount														
At 31 December 2017	7,474,061	3,552,995	1,028,811	26,868,257	23,509	718,579	485,708	282,110	306,419	1,792,695	51,512,181	7,759,035	3,455,113	105,259,473

6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group	Freehold land	Short term leasehold land	Long term leasehold land	Factory building	Signboard	Renovation	Furniture, fittings and office equipment	Computers	Container	Electrical installation	Machinery and equipment	Motor vehicles	Capital work-in-progress	Total
	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
At cost														
At 1 January 2016	7,056,749	3,919,383	1,067,927	22,221,105	24,004	1,574,101	904,966	390,627	469,264	3,836,414	45,580,433	10,519,537	6,936,455	104,500,965
Additions	0	0	0	6,462,109	17,238	64,272	121,642	38,598	2,332	48,439	14,776,103	3,296,908	8,695,482	33,523,123
Disposals	0	0	0	0	0	0	(18,857)	(28,192)	0	0	(1,589,352)	(145,893)	0	(1,782,294)
Written-off	0	0	0	0	(2,320)	0	(25,979)	(2,399)	0	0	0	0	0	(30,698)
Reclassification	0	0	0	86,056	0	0	3,150	0	13,788	0	4,760,520	19,936	(4,883,450)	0
At 31 December 2016	7,056,749	3,919,383	1,067,927	28,769,270	38,922	1,638,373	984,922	398,634	485,384	3,884,853	63,527,704	13,690,488	10,748,487	136,211,096
Accumulated depreciation														
At 1 January 2016	0	45,363	19,558	1,769,308	10,256	684,841	316,562	84,859	157,792	1,372,778	14,084,970	4,489,276	0	23,035,563
Current charge	0	108,872	9,779	516,950	3,627	161,552	115,390	48,307	11,896	386,614	4,586,395	2,040,424	0	7,989,806
Disposals	0	0	0	0	0	0	(4,776)	(20,309)	0	0	(34,949)	(139,890)	0	(199,924)
Written-off	0	0	0	0	(1,209)	0	(19,049)	(1,299)	0	0	0	0	0	(21,557)
At 31 December 2016	0	154,235	29,337	2,286,258	12,674	846,393	408,127	111,558	169,688	1,759,392	18,636,416	6,389,810	0	30,803,888
Accumulated impairment														
At 1 January 2016 / 31 December 2016	0	0	0	0	0	0	0	0	0	0	34,068	0	0	34,068
Carrying amount														
At 31 December 2016	7,056,749	3,765,148	1,038,590	26,483,012	26,248	791,980	576,795	287,076	315,696	2,125,461	44,857,220	7,300,678	10,748,487	105,373,140

6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Company	Motor vehicles RM	Signboard RM	Computer RM	Total RM
At cost				
At 1 January 2017	648,155	4,028	0	652,183
Additions	110,805	0	3,491	114,296
At 31 December 2017	758,960	4,028	3,491	766,479
Accumulated depreciation				
At 1 January 2017	71,206	100	0	71,306
Current charge	128,334	402	234	128,970
At 31 December 2017	199,540	502	234	200,276
Carrying amount				
At 31 December 2017	559,420	3,526	3,257	566,203

	Motor vehicles RM	Signboard RM	Total RM
At cost			
At 1 January 2016	156,067	0	156,067
Additions	492,088	4,028	496,116
At 31 December 2016	648,155	4,028	652,183
Accumulated depreciation			
At 1 January 2016	31,214	0	31,214
Current charge	39,992	100	40,092
At 31 December 2016	71,206	100	71,306
Carrying amount			
At 31 December 2016	576,949	3,928	580,877

6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(a) During the financial year, the Group and the Company made the following cash payments to purchase property, plant and equipment:

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Purchase of property, plant and equipment	12,011,063	33,523,123	114,296	496,116
Financed by hire purchase arrangements	(3,095,209)	(10,239,730)	0	(370,000)
Cash payments on purchase of property, plant and equipment	8,915,854	23,283,393	114,296	126,116

(b) The carrying amount of the property, plant and equipment of the Group and of the Company under hire purchase at the end of the reporting period is as follows:

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Motor vehicles	5,185,675	5,355,096	412,663	461,211
Machinery and equipment	13,388,304	13,382,748	0	0
	18,573,979	18,737,844	412,663	461,211

Details of the terms and conditions and information on financial risks of the hire purchase are disclosed in Notes 17 and 31 to the financial statements respectively.

(c) As at the end of the reporting period, the carrying amount of the property, plant and equipment have been charged to banks for credit facilities as disclosed in Note 16 to the financial statements are as follows:

	Group	
	2017	2016
	RM	RM
Freehold land	7,474,061	7,056,749
Short term leasehold land	3,552,995	3,765,148
Long term leasehold land	1,028,811	1,038,590
Factory building	18,601,515	24,472,197
Machinery and equipment	15,966,015	17,392,735
	46,623,397	53,725,419

6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

(d) During the financial year, estimates of the remaining useful life of certain motor vehicles were extended following a review of motor vehicle lifespan. The changes in accounting estimates reflects the remaining period over which the Group expects to obtain value from the identified motor vehicles.

Depreciation charged to the Group's profit or loss decreased by RM1,109,261 (2016: RM nil) in the current financial year ended 31 December 2017 as a result of the change in accounting estimates, with RM1,102,858 and RM1,005,119 of decrease in depreciation is expected to be incurred from the first hand motor vehicles in the financial year ending 2018 and 2019.

7. INTANGIBLE ASSETS

Group	Balance as at 1.1.2017 RM	(Written off)/ Additions RM	Amortisation charge for the financial year RM	Balance as at 31.12.2017 RM
Carrying amount				
Goodwill	42,981	0	0	42,981
Development costs	5,413,157	(3,038)	(1,197,163)	4,212,956
Trademarks	589	1,500	(155)	1,934
	5,456,727	(1,538)	(1,197,318)	4,257,871

	At 31.12.2017		
	Cost RM	Accumulated amortisation RM	Carrying amount RM
Goodwill	42,981	0	42,981
Development costs	6,260,912	(2,047,956)	4,212,956
Trademarks	3,858	(1,924)	1,934
	6,307,751	(2,049,880)	4,257,871

Group	Balance as at 1.1.2016 RM	Additions RM	Amortisation charge for the financial year RM	Balance as at 31.12.2016 RM
Carrying amount				
Goodwill	42,981	0	0	42,981
Development costs	917,498	4,808,444	(312,785)	5,413,157
Trademarks	825	0	(236)	589
	961,304	4,808,444	(313,021)	5,456,727

7. INTANGIBLE ASSETS (cont'd)

	At 31.12.2016 Cost RM	Accumulated amortisation RM	Carrying amount RM
Goodwill	42,981	0	42,981
Development costs	6,263,950	(850,793)	5,413,157
Trademarks	2,358	(1,769)	589
	6,309,289	(852,562)	5,456,727

8. INVESTMENTS IN SUBSIDIARIES

	Company 2017 RM	Company 2016 RM
At cost		
Unquoted shares	31,730,097	19,930,000
Less: Accumulated impairment losses	(500,000)	(500,000)
	31,230,097	19,430,000

Details of the subsidiaries, all incorporated in Malaysia, are as follows:

Name of company	Effective interest in equity 2017 %	Effective interest in equity 2016 %	Principal activities
Heng Huat Industries Holdings Sdn. Bhd. ("HHIH")	100%	100%	Investment holding
Fibre Star Marketing Sdn. Bhd. ("FS Marketing")	100%	100%	Ceased operation
Fibre Star (M) Sdn.Bhd. ("Fibre Star")	100%	100%	Manufacturing and marketing of mattresses and related products
HK Gua Musang Sdn. Bhd. ("HKGM")	100%	100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Power Sdn. Bhd. ("HKP")	100%	100%	Operator of power plant and boiler turbine system for electricity generation and steam production
Sabut Kelapa Saujana Setiu Terengganu Sdn. Bhd. ("SKT")	97%	0%	Dormant

8. INVESTMENTS IN SUBSIDIARIES (cont'd)

Details of the subsidiaries, all incorporated in Malaysia, are as follows: (cont'd)

	Effective interest in equity		
Name of company	**2017**	**2016**	**Principal activities**
	%	%	
Subsidiaries of HHIH			
HK Fibre Sdn. Bhd. ("HKF")	97%	97%	Manufacturing and trading of coconut biomass materials and value-added products
HK Mega Industries Sdn. Bhd. ("HKM")	100%	100%	Dormant
HK Kitaran Sdn. Bhd. ("HK Kitaran")	100%	100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Palm Fibre Manufacturer Sdn. Bhd. ("HK Palm")	100%	50%	Manufacturing and trading of oil palm biomass materials

(a) Acquisition of remaining equity interest from non-controlling interest- HK Palm

On 26 May 2017, HHIH, a wholly owned subsidiary, acquired the remaining 50% equity interest in HK Palm for a consideration of RM2 satisfied by cash. The carrying amount of net assets of HK Palm in the Group's financial statements on the date of acquisition was RM6,250,820. The Group adjusted the differences arose from the increase in stake with a reduction in retained earnings of RM3,125,408 and non-controlling interest of RM3,125,410.

In the previous financial year, although the Group owns 50% equity interest in HK Palm, 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, Dato' H'ng Choon Seng and Deputy Managing Director, Kee Swee Lai since the inception of HK Palm. 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, Dato' H'ng Choon Seng by virtue of his appointment as the Chairman of the Board of Directors of HK Palm pursuant to a Board of Directors' resolution dated 5 October 2009. Accordingly, HK Palm is deemed as a subsidiary company and is consolidated into the Group's financial statements.

(b) Subscription of additional shares in wholly-owned subsidiaries

During the financial year, the Company subscribed for an additional 9,000,000 and 2,800,000 ordinary shares of RM1 each in wholly-owned subsidiaries, HKGM and HKP respectively which was satisfied by way of capitalisation of RM9,000,000 and RM2,800,000 of the amount owing by HKGM and HKP respectively to the Company. Consequently, there was no change in the effective equity interest held by the Company in HKGM and HKP respectively.

8. INVESTMENTS IN SUBSIDIARIES (cont'd)

(b) Subscription of additional shares in wholly-owned subsidiaries (cont'd)

In the previous financial year, the Company subscribed for an additional 2,250,000 ordinary shares of RM1 each in wholly-owned subsidiary, HKGM which was satisfied by way of capitalisation of RM2,250,000 of the amount owing by HKGM to the Company. Consequently, there was no change in the effective equity interest held by the Company in HKGM.

(c) Incorporation of a subsidiary-Sabut Kelapa Saujana Setiu Terengganu Sdn. Bhd.

A new wholly-owned subsidiary, namely Sabut Kelapa Saujana Setiu Terengganu Sdn. Bhd. ("SKT") has been incorporated in Malaysia on 18 September 2017 by subscribing for 97 ordinary shares of RM 1 each, representing the 97% of the total issued share capital of SKT.

SKT has not commenced its commercial operations as at 31 December 2017.

(d) Impairment assessment on investment in FS Marketing

In the previous financial year, an impairment loss on investments in subsidiaries amounting to RM204,953 relating to a subsidiary, had been recognised due to the cessation of business operation of the subsidiary.

(e) The subsidiaries of the Group that have non-controlling interests ('NCI') are as follows:

	HK Palm	Other individual immaterial subsidiary	Total
2017			
NCI percentage of ownership interest and voting interest	50%		
Carrying amount of NCI (RM)	0 ^	482,568	482,568
Profit allocated to NCI (RM)	(154,296)	55,518	(98,778)

^ Acquisition of non-controlling interests during the financial year as disclosed in Note 8(a) to the financial statements.

8. INVESTMENTS IN SUBSIDIARIES (cont'd)

(e) The subsidiaries of the Group that have non-controlling interests ('NCI') are as follows: (cont'd)

	HK Palm	Other individual immaterial subsidiary	Total
2016			
NCI percentage of ownership interest and voting interest	50%		
Carrying amount of NCI (RM)	3,279,708	427,045	3,706,753
Profit allocated to NCI (RM)	(28,823)	70,427	41,604

The NCI of other subsidiary that is not wholly owned by the Group is deemed to be immaterial.

(f) In the previous financial year, the summarised financial information before intra-group elimination of the subsidiary that has material NCI as follows:

Assets and liabilities	**HK Palm RM**
Non-current assets	7,291,620
Current assets	6,426,592
Non-current liabilities	(333,858)
Current liabilities	(6,824,941)
Net assets	6,559,413
Revenue	10,025,659
Loss for the financial year/ Total comprehensive loss	(57,645)
Cash flows from operating activities	294,338
Cash flows used in investing activities	(149,909)
Cash flows used in financing activities	(1,711,942)
Net decrease in cash and cash equivalents	(1,567,513)
Dividend paid to NCI	1,590,000

9. INVENTORIES

	Group	
	2017	**2016**
	RM	**RM**
At cost		
Raw materials	3,251,002	2,599,714
Work-in-progress	36,149	0
Packing materials	453,894	259,744
Finished goods	6,627,424	4,130,365
Spare parts	709,230	425,295
	11,077,699	7,415,118

During the financial year, inventories of the Group recognised as cost of sales amounted to RM32,077,352 (2016: RM25,984,112).

10. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Contract amount	**Asset**	**Contract amount**	**Liability**
Group	**RM**	**RM**	**RM**	**RM**
Forward currency contract	3,549,414	131,048	7,229,808	521,930

(a) Forward currency contracts have been entered into to operationally hedge forecast sales denominated in foreign currencies that are expected to occur at various dates within five (5) months from the end of the reporting period. The forward currency contracts have maturity dates that coincide with the expected occurrence of these transactions. The fair value of these components has been determined based on the difference between the spot rates and the market rate.

(b) The fair value adjustments on derivative instruments are as follows:

	2017	**2016**
	RM	**RM**
Gain/(loss) on derivative asset/liability	652,978	(413,628)

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Trade receivables				
Trade receivables	31,452,122	24,955,706	0	0
Less: Impairment losses	(316,579)	(110,713)	0	0
	31,135,543	24,844,993	0	0
Other receivables				
Other receivables	1,610,321	1,248,887	5,095	67
Less: Impairment losses	(14,125)	0	0	0
	1,596,196	1,248,887	5,095	67
Amounts owing by subsidiaries	0	0	10,363,298	17,227,850
Deposits	867,234	370,059	1,000	1,000
Loans and receivables	33,598,973	26,463,939	10,369,393	17,228,917
Prepayments	4,109,433	2,824,297	23,190	7,468
	37,708,406	29,288,236	10,392,583	17,236,385

(a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 30 to 120 days (2016: 30 to 120 days). They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

(b) Amounts owing by subsidiaries are unsecured, bears interest at 5.39% (2016: 5.37%) and payable on demand in cash and cash equivalents.

(c) The currency exposure profile of loans and receivables are as follows:

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Ringgit Malaysia	12,462,719	10,835,113	10,369,393	17,228,917
United States Dollar	7,557,178	10,070,515	0	0
Chinese Renminbi	13,564,320	5,558,311	0	0
Other foreign currencies	14,756	0	0	0
	33,598,973	26,463,939	10,369,393	17,228,917

11. TRADE AND OTHER RECEIVABLES (cont'd)

(d) The ageing analysis of trade receivables of the Group is as follows:

	Group	
	2017	**2016**
	RM	**RM**
Neither past due nor impaired	21,291,956	20,864,040
Past due but not impaired		
1 to 30 days	4,632,929	1,929,338
31 to 60 days	2,396,480	848,297
61 to 90 days	2,244,982	616,453
90 to 120 days	142,201	43,057
More than 121 days	426,995	543,808
	9,843,587	3,980,953
Past due and impaired	316,579	110,713
	31,452,122	24,955,706

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 the Group. None of the Group'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

The Group has trade receivables amounting to RM9,843,587 (2016: RM3,980,953) that are past due at the reporting date but not impaired. The Directors and management are confident that the outstanding amounts are recoverable as these accounts are still active and have not defaulted on payments based on historical trends.

	Group	
	Individually impaired	
	2017	**2016**
	RM	**RM**
Trade receivables, gross	1,816,482	110,713
Less: Impairment loss	(316,579)	(110,713)
	1,499,903	0

11. TRADE AND OTHER RECEIVABLES (cont'd)

(e) The reconciliation of movement in the impairment loss of trade and other receivables are as follows:

	Group	
	2017	2016
	RM	RM
Trade receivables		
At 1 January	110,713	483,357
Charge for the financial year	302,735	110,713
Reversal of impairment loss	(88,249)	(483,357)
Written off	(8,620)	0
At 31 December	316,579	110,713
Other receivables		
At 1 January	0	0
Charge for the financial year	14,125	0
At 31 December	14,125	0
Total	330,704	110,713

Trade receivables that are individually determined to be impaired at the end of each reporting period relate to those debtors that exhibit significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

(f) Information on financial risks of trade and other receivables is disclosed in Note 31 to the financial statements.

12. CASH AND BANK BALANCES

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Cash and bank balances	7,048,551	8,846,902	36,417	208,797
Deposits with licensed banks	2,402,756	2,550,150	0	0
	9,451,307	11,397,052	36,417	208,797

12. CASH AND BANK BALANCES (cont'd)

(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	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Cash and bank balances	7,048,551	8,846,902	36,417	208,797
Deposits with licensed banks	2,402,756	2,550,150	0	0
	9,451,307	11,397,052	36,417	208,797
Less:				
Deposits pledged to licensed banks	(2,402,756)	(2,550,150)	0	0
Bank overdrafts included in borrowings (Note 15)	(11,862,302)	(6,412,511)	0	0
	(4,813,751)	2,434,391	36,417	208,797

(b) The currency exposure profile of cash and bank balances are as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Ringgit Malaysia	9,248,297	10,014,515	36,417	208,797
United States Dollar	103,579	1,120,458	0	0
Chinese Renminbi	87,790	253,727	0	0
Other foreign currencies	11,641	8,352	0	0
	9,451,307	11,397,052	36,417	208,797

(c) The deposits with licensed banks have been pledged as security for bank facilities granted to the Group as disclosed in Note 15 and 18 to the financial statements.

(d) Information on financial risks of cash and bank balances is disclosed in Note 31 to the financial statements.

13. SHARE CAPITAL

	Group and Company			
	2017		2016	
	Number of shares	RM	Number of shares	RM
Issued and fully paid:				
Balance as at 1 January	308,700,045	30,870,005	308,700,045	30,870,005
Transfer from share premium account pursuant to the Companies Act, 2016	0	5,454,124	0	0
Balance as at 31 December	308,700,045	36,324,129	308,700,045	30,870,005

(a) The owners of the parent are entitled to receive dividends as and when declared by the Company and are entitled to one (1) vote per ordinary share at meetings of the Company. All ordinary shares rank pari passu with regard to the residual assets of the Company.

(b) With the introduction of the Companies Act, 2016 effective 31 January 2017, the concepts of authorised share capital and par value of share capital have been abolished. Consequently, balance within the share premium account of RM5,454,124 has been transferred to the share capital account pursuant to the transitional provisions set out in Section 618(2) of the Companies Act, 2016. Notwithstanding this provision, the Company may utilise its share premium account for purposes stipulated in Section 618(3) of the Companies Act, 2016 for a transitional period of 24 months from 31 January 2017. There is no impact on the number of ordinary shares in issue or the relative entitlement of any of the member as a result of this transition.

14. RESERVES

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Non-distributable:				
Share premium	0	5,454,124	0	5,454,124
Reorganisation debit reserve	(5,185,000)	(5,185,000)	0	0
	(5,185,000)	269,124	0	5,454,124
Distributable:				
Retained earnings/(Accumulated losses)	48,188,536	44,696,722	(1,696,006)	(314,004)
	43,003,536	44,965,846	(1,696,006)	5,140,120

(a) Share premium

With the introduction of the Companies Act, 2016 effective 31 January 2017, the balance within the share premium account has been transferred to the share capital account as disclosed in Note 13(b) to the financial statements.

14. RESERVES (cont'd)

(b) Reorganisation debit reserve

The reorganisation debit reserve arose from the reverse acquisition of the Company by HHIH during the previous financial years as follows:

	Group RM
Issued equity of HHIH	2,962,000
Deemed purchase consideration of :	
- remaining non-controlling interest in an existing subsidiary, HK Kitaran	3,871,000
- a subsidiary, HK Palm	2,262,000
	6,133,000
Issued equity of the accounting acquirer, prior to the reverse acquisition	9,095,000
Compare against:	
Issued equity of the Company for the acquisition (comprising 14,280,000 ordinary shares)	(14,280,000)
Reorganisation debit reserve	(5,185,000)

15. BORROWINGS

	Group		Company	
	2017 RM	2016 RM	2017 RM	2016 RM
Non-current liabilities				
Term loans (Note 16)	15,567,072	17,563,763	0	0
Hire purchase creditors (Note 17)	6,089,134	7,952,422	128,960	202,533
	21,656,206	25,516,185	128,960	202,533
Current liabilities				
Term loans (Note 16)	3,681,867	3,906,709	0	0
Hire purchase creditors (Note 17)	4,245,350	4,827,032	137,572	119,562
Bankers' acceptances	16,610,000	15,047,000	0	0
Bank overdrafts (Note 18)	11,862,302	6,412,511	0	0
	36,399,519	30,193,252	137,572	119,562
Total borrowings				
Term loans (Note 16)	19,248,939	21,470,472	0	0
Hire purchase creditors (Note 17)	10,334,484	12,779,454	266,532	322,095
Bankers' acceptances	16,610,000	15,047,000	0	0
Bank overdrafts (Note 18)	11,862,302	6,412,511	0	0
	58,055,725	55,709,437	266,532	322,095

15. BORROWINGS (cont'd)

(a) All borrowings are denominated in Ringgit Malaysia ('RM').

(b) Bankers' acceptances are secured by:

(i) deposits pledged to licensed bank as disclosed in Note 12 to the financial statements;
(ii) joint and several guarantee by the Directors; and
(iii) corporate guarantee provided by the Company and subsidiaries.

16. TERM LOANS

(a) Term loans of the Group are secured by:

(i) legal charge over the Group's freehold land, long term leasehold land and factory building as disclosed in Note 6(c) to the financial statements;
(ii) joint and several guarantee issued by certain Directors of the Group;
(iii) a debenture having a fixed charges over the Group's machinery and equipment as disclosed in Note 6(c) to the financial statements;
(iv) corporate guarantee provided by the Company and subsidiaries; and
(v) a first debenture incorporating a fixed and floating charge over present and future assets of a subsidiary.

(b) Term loans of the Company are repayable by 60, 84, 120 and 240 equal monthly instalments.

(c) Information on financial risks of borrowings and its remaining maturity is disclosed in Note 31 to the financial statements.

17. HIRE PURCHASE CREDITORS

	Group		**Company**	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Minimum hire purchase payments				
- not later than one (1) year	4,786,922	5,516,942	147,756	133,332
- later than one (1) year and not later than five (5) years	6,536,432	8,691,402	135,423	211,083
Total minimum hire purchase payments	11,323,354	14,208,344	283,179	344,415
Less: Future interest charges	(988,870)	(1,428,890)	(16,647)	(22,320)
Present value of hire purchase payments	10,334,484	12,779,454	266,532	322,095
Repayable as follows:				
Current liabilities:				
- not later than one (1) year	4,245,350	4,827,032	137,572	119,562
Non-current liabilities:				
- later than one (1) year and not later than five (5) years	6,089,134	7,952,422	128,960	202,533
	10,334,484	12,779,454	266,532	322,095

Information on financial risks of hire purchase creditors is disclosed in Note 31 to the financial statements.

18. BANK OVERDRAFTS

The bank overdrafts of the Group are secured by:

(i) deposits pledged to licensed bank as disclosed in Note 12 to the financial statements;
(ii) joint and several guarantee by certain Directors; and
(iii) corporate guarantee provided by and a subsidiary.

19. DEFERRED TAX LIABILITIES

(a) The deferred tax liabilities are made up of the following:

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
At 1 January	732,086	894,805	11,100	95,600
Recognised in profit or loss (Note 26):				
- current year	993,715	4,420	0	2,627
- under/(over)provision in prior years	219,000	(167,139)	0	(87,127)
At 31 December	1,944,801	732,086	11,100	11,100
Deferred tax liabilities				
Property, plant and equipment	1,944,801	732,086	11,100	11,100

(b) The amount of temporary differences for which no deferred tax asset has been recognised in the statement of financial position are as follows:

	Group	
	2017	2016
	RM	RM
Property, plant and equipment	84,120	86,427
Unused tax losses	1,260,317	1,260,317
	1,344,437	1,346,744
Subject to income tax:		
Deferred tax assets (before offsetting)		
Property, plant and equipment	84,605	87,076
Unused tax losses	1,260,317	1,260,317
	1,344,922	1,347,393
Offsetting	(485)	(649)
Deferred tax assets (after offsetting)	1,344,437	1,346,744
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	485	649
Offsetting	(485)	(649)
Deferred tax liabilities (after offsetting)	0	0

19. DEFERRED TAX LIABILITIES (cont'd)

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 utilised.

The deductible temporary differences do not expire under the current tax legislation.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Trade payables				
Third parties	6,492,983	4,453,245	0	0
Amounts owing to related parties	0	48,350	0	0
	6,492,983	4,501,595	0	0
Other payables				
Amount owing to subsidiaries	0	0	7,078,795	863,796
Other payables	16,686,693	12,583,408	101,769	89,599
Accruals	4,774,990	5,596,783	155,414	133,244
	21,461,683	18,180,191	7,335,978	1,086,639
	27,954,666	22,681,786	7,335,978	1,086,639

(a) Trade and other payables are denominated in Ringgit Malaysia ('RM').

(b) Trade payables are non-interest bearing and the normal trade credit terms granted to the Group range from 30 to 90 days (2016: 30 to 90 days) from the date of invoice.

(c) Amounts owing to a related party in trade payables is subject to normal credit terms. Amount owing to a related party in other payables was unsecured, interest-free and payable upon demand in cash and cash equivalents.

(d) The related party is a company incorporated in Malaysia, in which certain Directors of the Group have significant and controlling financial interests.

(e) Amount owing to subsidiaries are unsecured, bears interest rate range from 5.00% to 7.15% (2016: 4.47% to 5.44%) and payable upon demand in cash and cash equivalents.

(f) Information on financial risks of trade and other payables is disclosed in Note 31 to the financial statements.

21. COMMITMENTS

(a) Operating lease commitments

The Group has entered into operating lease agreements for the use of factory, hostel, warehouse and land. The future aggregate minimum lease payments under operating leases contracted for as of the reporting date but not recognised as liabilities are as follows:

	Group	
	2017	**2016**
	RM	**RM**
Not later than one (1) year	1,129,150	395,150
Later than one (1) year and not later than five (5) years	432,400	160,600
	1,561,550	555,750

(b) Capital commitments

	Group	
	2017	**2016**
	RM	**RM**
Capital expenditure in respect of purchase of property, plant and equipment:		
Contracted but not provided for	2,649,267	1,867,720

22. CONTINGENT LIABILITIES

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Corporate guarantee given to banks for credit facilities granted to subsidiaries				
- unsecured	83,352,000	88,619,000	73,216,000	76,693,000

The Directors are of the opinion that the chances of the subsidiaries defaulting on repayment and the financial institution calling upon the corporate guarantee are remote. Accordingly, the fair value of the above corporate guarantee given to the subsidiaries for banking facilities is negligible.

23. REVENUE

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Sale of goods	115,241,563	84,575,179	0	0

24. COST OF SALES

	Group	
	2017	**2016**
	RM	**RM**
Cost of goods sold	76,389,705	55,231,884

25. FINANCE COSTS

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Bank charges	509	41	0	0
Interest expenses on:				
- bank overdrafts	714,024	356,446	0	0
- term loans	1,118,316	550,472	0	0
- hire purchase	802,100	430,883	13,770	7,650
- bankers' acceptance	623,988	363,223	0	0
- inter company loan interest	0	0	325,101	21,205
	3,258,937	1,701,065	338,871	28,855

26. TAX EXPENSE

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Current tax expense based on profit/(loss) for the financial year	706,270	462,025	0	69,600
Under/(Over)provision in prior years	57,365	314,756	(3,296)	214,920
	763,635	776,781	(3,296)	284,520
Deferred tax (Note 19):				
Relating to origination and reversal of temporary differences	993,715	4,420	0	2,627
Under/(Over)provision in prior years	219,000	(167,139)	0	(87,127)
	1,212,715	(162,719)	0	(84,500)
Total tax expense	1,976,350	614,062	(3,296)	200,020

The numerical reconciliation between the tax expense and the product of accounting profit/(loss) multiplied by the applicable tax rates of the Group and of the Company are as follows:

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Profit/(Loss) before tax	2,243,978	700,819	(1,385,298)	(468,094)
Tax at Malaysian statutory tax rate of 24% (2016: 24%)	538,555	168,197	(332,472)	(112,343)
Tax effects in respect of:				
- non allowable expenses	1,662,153	1,436,226	332,472	184,570
- tax exempt income	(500,223)	(1,474,500)	0	0
- different tax rate for first RM500,000 of chargeable income	0	(400)	0	0
Deferred tax assets not recognised during the financial year	0	336,922	0	0
Utilisation of previously unrecognised deferred tax assets	(500)	0	0	0
	1,699,985	466,445	0	72,227
Under/(Over)provision in prior years				
- current tax	57,365	314,756	(3,296)	214,920
- deferred tax	219,000	(167,139)	0	(87,127)
	1,976,350	614,062	(3,296)	200,020

26. TAX EXPENSE (cont'd)

Three of the subsidiaries have been granted pioneer status by the Ministry of International Trade and Industry ("MITI"):

(a) on 8 September 2011, HKF has been granted 70% deduction on normal corporate income tax for a period of 10 years following the end of the pioneer status.

(b) on 17 May 2010, HK Kitaran has been granted full tax exemption from corporate income tax on the net profit from the promoted business for a period of 10 years.

(c) on 10 August 2009, HK Palm has been granted 70% deduction on normal corporate income tax for a period of 10 years following the end of the pioneer status.

27. 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	
		2017	**2016**
		RM	**RM**
Profit attributable to equity holders of parent	(RM)	366,406	45,153
Weighted average number of ordinary shares in issue	(units)	308,700,045	308,700,045
Basic earnings per ordinary share	(sen)	0.12	0.01

(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.

28. EMPLOYEE BENEFITS

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Wages, salaries and bonuses	25,957,152	19,509,048	1,216,646	483,765
Contribution to defined contribution plan	1,535,778	1,168,719	131,144	43,920
Social security contributions	159,664	103,384	9,411	3,693
Other benefits	152,725	105,334	0	461
	27,805,319	20,886,485	1,357,201	531,839

Included in the employee benefits of the Group and of the Company are Directors' remuneration amounting to RM3,890,652 (2016: RM3,873,360) and RM701,673 (2016: RM305,177) respectively.

29. RELATED PARTY DISCLOSURES

(a) Identities of related parties

Parties are considered to be related to the Group if the Group 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 the Group and the party are subject to common control or common significant influence. Related parties could be individuals or other parties.

The Company has controlling related party relationship with its direct and indirect subsidiaries.

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the financial year:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Related companies:				
- Rental paid and payable	462,000	504,000	0	0
- Purchase of raw material	319,239	334,812	0	0
Advances to subsidiaries				
- HKGM	0	0	4,390,000	9,084,000
- HKP	0	0	830,000	1,920,000
- HK Kitaran	0	0	2,435,000	0
- HHIH	0	0	302,000	0
Advances from subsidiaries				
- HKF	0	0	1,570,000	300,000
- HK Palm	0	0	1,322,000	0

29. RELATED PARTY DISCLOSURES (cont'd)

(b) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the financial year: (cont'd)

The related party transactions described above were carried out on terms and conditions and mutually agreed with related parties.

Information regarding outstanding balances arising from related party transactions at the end of the reporting period are disclosed in Notes 11 and 20 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.

The remuneration of Directors and other key management personnel during the financial year was as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Short term employee benefits	6,114,698	6,039,742	1,081,054	363,315
Contributions to defined contribution plan	726,088	722,911	131,144	43,920
	6,840,786	6,762,653	1,212,198	407,235

30. FINANCIAL INSTRUMENTS

(a) Capital management

The primary objective of the capital management of the 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.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. In order 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 2017 and 31 December 2016.

The 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.

30. FINANCIAL INSTRUMENTS (cont'd)

(a) Capital management (cont'd)

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RM	**RM**	**RM**	**RM**
Borrowings (Note 15)	58,055,725	55,709,437	266,532	322,095
Trade and other payables (Note 20)	27,954,666	22,681,786	7,335,978	1,086,639
	86,010,391	78,391,223	7,602,510	1,408,734
Less:				
Cash and bank balances (Note 12)	(9,451,307)	(11,397,052)	(36,417)	(208,797)
Net debt	76,559,084	66,994,171	7,566,093	1,199,937
Total capital	79,327,665	75,835,851	34,628,123	36,010,125
Net debt	76,559,084	66,994,171	7,566,093	1,199,937
Equity	155,886,749	142,830,022	42,194,216	37,210,062
Gearing ratio (%)	**49**	**47**	**18**	**3**

Pursuant to the requirements of Guidance Note No. 3/2006 of the Bursa Malaysia Securities Berhad, the Group is required to maintain a consolidated shareholders' equity of not less than or equals to twenty-five percent (25%) of the issued and paid-up capital of the Group. The Group has compiled with this requirements for the financial year ended 31 December 2017.

The Company has complied with these requirements for the financial year ended 31 December 2017.

(b) Financial instruments

Group	**Loans and receivables** RM	**Fair value through profit or loss** RM	**Total** RM
31 December 2017			
Financial assets			
Trade and other receivables (excludes prepayments) (Note 11)	33,598,973	0	33,598,973
Cash and bank balances (Note 12)	9,451,307	0	9,451,307
Derivative asset (Note 10)	0	131,048	131,048
	43,050,280	131,048	43,181,328

30. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial instruments (cont'd)

Group	Other financial liabilities RM
Financial liabilities	
Trade and other payables (Note 20)	27,954,666
Borrowings (Note 15)	58,055,725
	86,010,391

Group	Loans and receivables RM
31 December 2016	
Financial assets	
Trade and other receivables (excludes prepayments) (Note 11)	26,463,939
Cash and bank balances (Note 12)	11,397,052
	37,860,991

Group	Other financial liabilities RM	Fair value through profit or loss RM	Total RM
31 December 2016			
Financial liabilities			
Trade and other payables (Note 20)	22,681,786	0	22,681,786
Borrowings (Note 15)	55,709,437	0	55,709,437
Derivative liability (Note 10)	0	521,930	521,930
	78,391,223	521,930	78,913,153

30. FINANCIAL INSTRUMENTS (cont'd)

(b) Financial instruments (cont'd)

	Loans and receivables	
	2017	2016
Company	RM	RM
Financial assets		
Trade and other receivables (excludes prepayments) (Note 11)	10,369,393	17,228,917
Cash and bank balances (Note 12)	36,417	208,797
	10,405,810	17,437,714

	Other financial liabilities	
	2017	2016
	RM	RM
Financial liability		
Trade and other payables (Note 20)	7,335,978	1,086,639
Borrowings (Note 15)	266,532	322,095
	7,602,510	1,408,734

(c) Methods and assumptions used to estimate fair value

The fair values of financial assets and financial liabilities are determined as follows:

(i) Financial instruments that are not carried at fair values and whose carrying amounts are at reasonable approximation of fair value.

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 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.

(iii) Long term borrowing

The fair values of these financial instruments are estimated by discounting the expected future cash flows at market incremental lending rate for similar types of lending, borrowing or leasing arrangements at the end of the reporting period. At the end of the reporting period, these amounts are carried at amortised cost and the carrying amounts approximate fair value.

30. FINANCIAL INSTRUMENTS (cont'd)

(c) Methods and assumptions used to estimate fair value (cont'd)

The fair values of financial assets and financial liabilities are determined as follows: (cont'd)

(iv) Derivatives

The fair value of a forward foreign exchange contract is the amount that would be payable or receivable upon termination of the outstanding position arising and is determined by reference to the difference between the spot rate and the market rate as at the end of each reporting period applied to a contract of similar amount and maturity profile.

(d) Fair value hierarchy

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

(i) Derivatives

The fair value of forward exchange contracts is estimated by discounting the difference between the spot rate and the market rate for the residual maturity of the contract using a risk-free interest rate.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. In respect of the borrowings, the market rate of interest is determined by reference to similar borrowing arrangements.

Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30. FINANCIAL INSTRUMENTS (cont'd)

(d) Fair value hierarchy (cont'd)

The following tables set out the financial instruments carried at fair values and those not carried at fair values for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position.

	Fair values of financial instruments carried at fair value				Fair values of financial instruments not carried at fair value					
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Total fair value	Carrying amount
Group	RM	RM	RM	RM	RM	RM	RM	RM	RM	RM
2017										
Financial assets										
Financial asset at fair value through profit or loss										
- Forward currency contract	0	131,048	0	131,048	0	0	0	0	131,048	131,048
Financial liabilities										
Other financial liability										
- Hire purchase creditors	0	0	0	0	0	9,647,235	0	9,647,235	9,647,235	10,334,484
	0	131,048	0	131,048	0	9,647,235	0	9,647,235	9,778,283	10,465,532
2016										
Financial liabilities										
Financial liabilities at fair value through profit or loss										
- Forward currency contract	0	521,930	0	521,930	0	0	0	0	521,930	521,930
Other financial liability										
- Hire purchase creditors	0	0	0	0	0	12,403,344	0	12,403,344	12,403,344	12,779,454
	0	521,930	0	521,930	0	12,403,344	0	12,403,344	12,925,274	13,301,384

30. FINANCIAL INSTRUMENTS (cont'd)

(d) Fair value hierarchy (cont'd)

The following tables set out the financial instruments carried at fair values and those not carried at fair values for which fair value is disclosed, together with their fair values and carrying amounts shown in the statements of financial position. (cont'd)

	Fair values of financial instruments carried at fair value				Fair values of financial instruments not carried at fair value				Total fair value	Carrying amount
Company	**Level 1 RM**	**Level 2 RM**	**Level 3 RM**	**Total RM**	**Level 1 RM**	**Level 2 RM**	**Level 3 RM**	**Total RM**	**RM**	**RM**
2017										
Financial liabilities										
Other financial liability										
- Hire purchase creditors	0	0	0	0	0	254,220	0	254,220	254,220	266,532
	0	0	0	0	0	254,220	0	254,220	254,220	266,532
2016										
Financial liabilities										
Other financial liability										
- Hire purchase creditors	0	0	0	0	0	314,397	0	314,397	314,397	322,095
	0	0	0	0	0	314,397	0	314,397	314,397	322,095

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 exposed mainly to credit risk, liquidity and cash flow risk, interest rate risk and foreign currency risk. Information on the management of the related exposures is detailed below:

(i) 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.

<u>Exposure to credit risk</u>

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 statements of financial position.

<u>Receivables</u>

With a credit policy in place to ensure that credit risk is monitored on an ongoing basis, the management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacted with the Group. The Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than credit terms granted are deemed to have higher credit risk, and are monitored individually.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(i) Credit risk (cont'd)

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			
	2017		2016	
	RM	**% of total**	**RM**	**% of total**
By country				
Malaysia	10,330,624	32.85%	9,326,880	37.37%
People's Republic of China	21,121,498	67.15%	15,628,826	62.63%
	31,452,122	100.00%	24,955,706	100.00%

At the end of the reporting period, approximately 21% (2016: 41%) of the trade receivables of the Group were due from two (2016: two) major customer located in the People's Republic of China; and the amounts owing by subsidiaries contributed 100% (2016: 100%) of the total receivables of the Company.

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 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 past due but not impaired

Information regarding financial assets that are past due but not impaired is disclosed in Note 11 to the financial statements.

Financial assets that are past due and impaired

Information regarding financial assets that are past due and impaired is disclosed in Note 11 to the financial statements.

(ii) 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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(ii) Liquidity and cash flow risk (cont'd)

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 (1) year RM	One (1) to five (5) years RM	Over five (5) years RM	Total RM
As at 31 December 2017				
Financial liabilities				
Trade and other payables (Note 20)	27,954,666	0	0	27,954,666
Borrowings (Note 15)	37,971,404	21,834,512	2,654,107	62,460,023
Total undiscounted financial liabilities	65,926,070	21,834,512	2,654,107	90,414,689
As at 31 December 2016				
Financial liabilities				
Trade and other payables (Note 20)	22,681,786	0	0	22,681,786
Borrowings (Note 15)	32,098,042	25,360,882	5,386,842	62,845,766
Derivatives (Note 10)	521,930	0	0	521,930
Total undiscounted financial liabilities	55,301,758	25,360,882	5,386,842	86,049,482

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(ii) Liquidity and cash flow risk (cont'd)

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. (cont'd)

	On demand or within one (1) year RM	One (1) to five (5) years RM	Total RM
Company			
As at 31 December 2017			
Financial liability			
Trade and other payables (Note 20)	7,335,978	0	7,335,978
Borrowings (Note 15)	147,756	135,423	283,179
Total undiscounted financial liability	7,483,734	135,423	7,619,157
As at 31 December 2016			
Financial liability			
Trade and other payables (Note 20)	1,086,639	0	1,086,639
Borrowings (Note 15)	133,332	211,083	344,415
Total undiscounted financial liability	1,219,971	211,083	1,431,054

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the financial instruments of the Group would 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.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(iii) Interest rate risk (cont'd)

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity analysis of the Group if interest rates at the end of each reporting period changed by ten (10) basis points with all other variables held constant:

	Group	
	2017	**2016**
	RM	**RM**
Profit after tax		
Increase 10 basis points (2016: 10 basis point)	(42,296)	(40,401)
Decrease 10 basis points (2016: 10 basis point)	42,296	40,401

	Company	
	2017	**2016**
	RM	**RM**
Profit after tax		
Increase 10 basis points (2016: 10 basis point)	2,294	12,192
Decrease 10 basis points (2016: 10 basis point)	(2,294)	(12,192)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(iii) Interest rate risk (cont'd)

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 Group's financial instruments that are exposed to interest rate risk:

Group	Note	Weighted average effective interest rate %	Within one (1) year RM	One (1) to two (2) years RM	Two (2) to three (3) years RM	Three (3) to four (4) years RM	Four (4) to five (5) years RM	More than five (5) years RM	Total RM
At 31 December 2017									
Fixed rates									
Deposits with licensed banks	12	3.13	2,402,756	0	0	0	0	0	2,402,756
Hire purchase creditors	17	3.11	4,245,350	3,183,129	1,913,485	912,333	80,187	0	10,334,484
Floating rates									
Bank overdrafts	18	7.78	11,862,302	0	0	0	0	0	11,862,302
Bankers' acceptance	15	4.78	16,610,000	0	0	0	0	0	16,610,000
Term loans	16	5.30	3,681,867	3,701,033	3,760,532	3,545,677	2,264,969	2,294,861	19,248,939
Company									
Fixed rates									
Hire purchase creditors	17	2.70	137,572	88,659	12,805	13,442	14,054	0	266,532
Floating rates									
Amount owing by subsidiaries	11	5.39	10,363,298	0	0	0	0	0	10,363,298
Amount owing to subsidiaries	20	5.45	7,078,795	0	0	0	0	0	7,078,795

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(iii) Interest rate risk (cont'd)

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 Group's financial instruments that are exposed to interest rate risk: (cont'd)

Group	Note	Weighted average effective interest rate %	Within one (1) year RM	One (1) to two (2) years RM	Two (2) to three (3) years RM	Three (3) to four (4) years RM	Four (4) to five (5) years RM	More than five (5) years RM	Total RM
At 31 December 2016									
Fixed rates									
Deposits with licensed banks	12	3.12	2,550,150	0	0	0	0	0	2,550,150
Hire purchase creditors	17	3.50	4,827,032	3,404,472	2,294,209	1,536,200	717,541	0	12,779,454
Floating rates									
Bank overdrafts	18	7.80	6,412,511	0	0	0	0	0	6,412,511
Bankers' acceptance	15	5.03	15,047,000	0	0	0	0	0	15,047,000
Term loans	16	6.55	3,906,709	3,513,868	3,542,311	3,592,165	3,397,829	3,517,590	21,470,472
Company									
Fixed rates									
Hire purchase creditors	17	2.70	119,562	126,042	76,491	0	0	0	322,095
Floating rates									
Amount owing by subsidiaries	11	5.37	17,227,850	0	0	0	0	0	17,227,850
Amount owing to subsidiaries	20	5.00	863,796	0	0	0	0	0	863,796

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(iv) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument would fluctuate because of changes in foreign exchange rates.

Transactional currency exposures arise from sales to Asia customer. These sales are priced in Ringgit Malaysia but invoiced in the currencies of the customers involved.

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	
	2017	**2016**
	RM	**RM**
Profit after tax		
USD/RM - strengthen by 5% (2016: 5%)	291,109	425,257
- weaken by 5% (2016: 5%)	(291,109)	(425,257)
RMB/RM - strengthen by 5% (2016: 5%)	518,780	220,857
- weaken by 5% (2016: 5%)	(518,780)	(220,857)

During the financial year, the Group entered into foreign currency forward contracts to manage exposures to currency risk for receivables which are denominated in a currency other than the functional currency of the Group.

The notional amount and maturity date of the forward foreign exchange contracts outstanding as at 31 December 2017 are as follows:

Contract	**Expiry dates**	**Contract amounts**	**RM equivalent**
Contracts used to hedge trade receivables in USD	January 2018	100,000	420,000
	February 2018	65,000	277,054
	March 2018	475,000	2,003,895
	April 2018	100,000	424,195
	May 2018	100,000	424,270
			3,549,414

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

(iv) Foreign currency risk (cont'd)

The notional amount and maturity date of the forward foreign exchange contracts outstanding as at 31 December 2016 are as follows:

Contract	Expiry dates	Contract amounts	RM equivalent
Contracts used to hedge trade receivables in USD	January 2017	38,377	165,388
	February 2017	100,000	411,375
	April 2017	50,000	216,075
	May 2017	50,000	211,175
	June 2017	250,000	1,086,215
	August 2017	350,000	1,419,440
	September 2017	200,000	823,800
	October 2017	200,000	840,650
	November 2017	450,000	1,931,090
			7,105,208
Contracts used to hedge trade receivables in CNY	February 2017	200,000	124,600
			7,229,808

32. OPERATING SEGMENTS

Heng Huat Resources Group Berhad and its subsidiaries, are principally engaged in manufacturing and trading of biomass materials, manufacturing and trading of mattresses and related products and investment holding.

Heng Huat Resources Group Berhad has arrived at three (3) 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:

(i) 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.

(ii) Mattresses and related products

Manufacturing and trading of mattresses and related products.

(iii) Investment holdings and others

32. OPERATING SEGMENTS (cont'd)

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.

2017

	Biomass materials and related products RM	Mattresses and related products RM	Investment holdings and others RM	Total RM
Revenue				
Total revenue	101,463,318	23,041,334	0	124,504,652
Inter-segment revenue	(9,263,089)	0	0	(9,263,089)
Revenue from external customers	92,200,229	23,041,334	0	115,241,563
Interest income	63,541	27,017	3,561	94,119
Finance costs	(2,839,360)	(405,807)	(13,770)	(3,258,937)
Net finance expense	(2,775,819)	(378,790)	(10,209)	(3,164,818)
Depreciation	9,560,567	557,662	137,749	10,255,978
Amortisation	1,197,163	155	0	1,197,318
Segment profit before tax	**4,046,628**	**(396,463)**	**(1,213,189)**	**2,436,976**
* Additions to non-current assets other than financial instruments and intangible assets	11,723,420	173,347	114,296	12,011,063
Segment assets	**149,196,614**	**17,885,148**	**804,042**	**167,885,804**
Segment liabilities	**74,537,820**	**10,938,031**	**534,540**	**86,010,391**

* Additions to non-current assets consist of:

	RM
Property plant and equipment	12,011,063

32. OPERATING SEGMENTS (cont'd)

2016

	Biomass materials and related products RM	Mattresses and related products RM	Investment holdings and others RM	Total RM
Revenue				
Total revenue	64,196,732	24,066,651	175,000	88,438,383
Inter-segment revenue	(3,686,454)	(1,750)	(175,000)	(3,863,204)
Revenue from external customers	60,510,278	24,064,901	0	84,575,179
Interest income	63,692	11,187	3,942	78,821
Finance costs	(1,404,445)	(288,970)	(7,650)	(1,701,065)
Net finance expense	(1,340,753)	(277,783)	(3,708)	(1,622,244)
Depreciation	7,362,901	574,977	51,928	7,989,806
Amortisation	312,785	236	0	313,021
Segment profit before tax	**1,150,632**	**47,326**	**1,159,897**	**2,357,855**
* Additions to non-current assets other than financial instruments and intangible assets	32,586,238	440,770	496,115	33,523,123
Segment assets	**140,325,223**	**17,891,232**	**713,818**	**158,930,273**
Segment liabilities	**68,735,466**	**9,624,243**	**553,444**	**78,913,153**

* Additions to non-current assets consist of:

	RM
Property plant and equipment	33,523,123

32. OPERATING SEGMENTS (cont'd)

(a) Reconciliations

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the corresponding amounts of the Group are as follows:

	2017 RM	2016 RM
Revenue		
Total revenue for reportable segments	124,504,652	88,438,383
Elimination of inter-segmental revenues	(9,263,089)	(3,863,204)
Revenue of the Group per consolidated statement of profit or loss and other comprehensive income	115,241,563	84,575,179
Profit for the financial year		
Profit before tax for reportable segments	2,436,976	2,357,855
Elimination of inter-segment profits	(192,998)	(1,657,036)
Profit before tax	2,243,978	700,819
Tax expense	(1,976,350)	(614,062)
Profit for the financial year of the Group per consolidated statement of profit or loss and other comprehensive income	267,628	86,757
Assets		
Total assets for reportable segments	167,885,804	158,930,273
Tax assets	232,612	381,204
Assets of the Group per consolidated statement of financial position	168,118,416	159,311,477
Liabilities		
Total liabilities for reportable segments	86,010,391	78,913,153
Tax liabilities	2,297,792	855,720
Liabilities of the Group per consolidated statement of financial position	88,308,183	79,768,873

32. OPERATING SEGMENTS (cont'd)

(b) 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 of the customers from which the sales 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.

	2017 RM	2016 RM
Revenue from external customers		
Malaysia	51,296,038	39,261,855
China	63,732,122	44,946,023
Singapore and other	213,403	367,301
	115,241,563	84,575,179

(c) Major customer

During the financial year, the Group does not have any major customer that contributed 10% or more of its total revenue.

In previous financial year, revenue from a customer in the biomass materials and related products segment accounted for approximately 21.04% of the Group's total revenue.

33. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

During the financial year, a fire had occurred at the Group’s production plant in Gua Musang, Kelantan. The plant belongs to HK Gua Musang Sdn Bhd, a wholly-owned subsidiary of the Company.

The Group has incurred a net loss of RM565,831 as a result of the fire incident.

34. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs

(i) New MFRSs adopted during the financial year

The Group and the Company adopted the following Standards of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ('MASB') during the financial year:

Title	Effective Date
Amendments to MFRS 12 *Annual Improvements to MFRS Standards 2014 - 2016 Cycle*	1 January 2017
Amendments to MFRS 107 *Disclosure Initiative*	1 January 2017
Amendments to MFRS 112 *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017

34. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (cont'd)

(i) New MFRSs adopted during the financial year (cont'd)

Adoption of the above Standards did not have any material effect on the financial performance or position of the Group and the Company.

(ii) New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2018

The following are Standards of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been early adopted by the Group and the Company:

Title	Effective Date
Amendments to MFRS 1 Annual Improvements to MFRS Standards 2014 - 2016 Cycle	1 January 2018
MFRS 9 *Financial Instruments (IFRS 9 as issued by IASB in July 2014)*	1 January 2018
MFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Clarifications to MFRS 15	1 January 2018
Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Amendments to MFRS 128 *Annual Improvements to MFRS Standards 2014 - 2016 Cycle*	1 January 2018
Amendments to MFRS 140 *Transfers of Investment Property*	1 January 2018
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*	See MFRS 4 Paragraphs 46 and 48
MFRS 16 *Leases*	1 January 2019
IC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*	1 January 2019
Amendments to MFRS 9 *Prepayment Features with Negative Compensation*	1 January 2019
Amendments to MFRS 3 *Annual Improvements to MFRS Standards 2015–2017 Cycle*	1 January 2019
Amendments to MFRS 11 *Annual Improvements to MFRS Standards 2015–2017 Cycle*	1 January 2019
Amendments to MFRS 112 *Annual Improvements to MFRS Standards 2015–2017 Cycle*	1 January 2019
Amendments to MFRS 119 *Plan Amendment, Curtailment or Settlement*	1 January 2019
Amendments to MFRS 123 *Annual Improvements to MFRS Standards 2015–2017 Cycle*	1 January 2019
MFRS 17 *Insurance Contracts*	1 January 2021
Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred

Based on the assessment, the Group does not expect the application of MFRS 9 and MFRS 15 to have any significant impact on its consolidated financial statements.

The Group is applying the modified retrospective method upon adoption of MFRS 15 and the cumulative effects would be shown as an adjustment to the opening retained earnings on 1 January 2018.

The Group is currently finalising the adjustments upon adoption of MFRS 9 and MFRS 15. The following reconciliations provide an estimate of the expected impact upon initial application of MFRS 9 and MFRS 15 on the financial position, profit or loss and other comprehensive income of the Group.

34. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (cont'd)

(ii) New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2018 (cont'd)

(a) Reconciliation of financial position and equity

	1 January 2017			
	Previously stated	**Effects of MFRS 9**	**Effects of MFRS 15**	**Restated**
	RM	**RM**	**RM**	**RM**
ASSETS				
Non-current assets				
Property, plant and equipment	105,373,140	0	0	105,373,140
Intangible assets	5,456,727	0	0	5,456,727
	110,829,867	0	0	110,829,867
Current assets				
Inventories	7,415,118	0	0	7,415,118
Trade and other receivables	29,288,236	(603,841)	0	28,684,395
Current tax assets	381,204	0	0	381,204
Cash and bank balances	11,397,052	0	0	11,397,052
	48,481,610	(603,841)	0	47,877,769
TOTAL ASSETS	159,311,477	(603,841)	0	158,707,636
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	30,870,005	0	0	30,870,005
Reserves	44,965,846	(603,841)	0	44,362,005
	75,835,851	(603,841)	0	75,232,010
Non-controlling interests	3,706,753	0	0	3,706,753
TOTAL EQUITY	79,542,604	(603,841)	0	78,938,763

34. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (cont'd)

(ii) New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2018 (cont'd)

(a) Reconciliation of financial position and equity

	1 January 2017			
	Previously stated	**Effects of MFRS 9**	**Effects of MFRS 15**	**Restated**
	RM	**RM**	**RM**	**RM**
LIABILITIES				
Non-current liabilities				
Borrowings	25,516,185	0	0	25,516,185
Deferred tax liabilities	732,086	0	0	732,086
	26,248,271	0	0	26,248,271
Current liabilities				
Trade and other payables	22,681,786	0	0	22,681,786
Derivative liability	521,930	0	0	521,930
Borrowings	30,193,252	0	0	30,193,252
Current tax liabilities	123,634	0	0	123,634
	53,520,602	0	0	53,520,602
TOTAL LIABILITIES	79,768,873	0	0	79,768,873
TOTAL EQUITY AND LIABILITIES	159,311,477	(603,841)	0	158,707,636

34. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (cont'd)

(ii) New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2018 (cont'd)

(a) Reconciliation of financial position and equity (cont'd)

	31 December 2017/1 January 2018			
	Previously stated	**Effects of MFRS 9**	**Effects of MFRS 15**	**Restated**
	RM	**RM**	**RM**	**RM**
ASSETS				
Non-current assets				
Property, plant and equipment	105,259,473	0	0	105,259,473
Intangible assets	4,257,871	0	0	4,257,871
	109,517,344	0	0	109,517,344
Current assets				
Inventories	11,077,699	0	2,485,979	13,563,678
Derivative asset	131,048	0	0	131,048
Trade and other receivables	37,708,406	(731,606)	(3,778,987)	33,197,813
Current tax assets	232,612	0	0	232,612
Cash and bank balances	9,451,307	0	0	9,451,307
	58,601,072	(731,606)	(1,293,008)	56,576,458
TOTAL ASSETS	168,118,416	(731,606)	(1,293,008)	166,093,802
EQUITY AND LIABILITIES				
Equity attributable to owners of the parent				
Share capital	36,324,129	0	0	36,324,129
Reserves	43,003,536	(731,606)	(364,558)	41,907,372
	79,327,665	(731,606)	(364,558)	78,231,501
Non-controlling interests	482,568	0	0	482,568
Total equity	79,810,233	(731,606)	(364,558)	78,714,069

34. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (cont'd)

(ii) New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2018 (cont'd)

(a) Reconciliation of financial position and equity (cont'd)

	31 December 2017/1 January 2018			
	Previously stated	**Effects of MFRS 9**	**Effects of MFRS 15**	**Restated**
	RM	**RM**	**RM**	**RM**
Non-current liabilities				
Borrowings	21,656,206	0	0	21,656,206
Deferred tax liabilities	1,944,801	0	0	1,944,801
	23,601,007	0	0	23,601,007
Current liabilities				
Trade and other payables	27,954,666	0	(928,450)	27,026,216
Borrowings	36,399,519	0	0	36,399,519
Current tax liabilities	352,991	0	0	352,991
	64,707,176	0	(928,450)	63,778,726
TOTAL LIABILITIES	88,308,183	0	(928,450)	87,379,733
TOTAL EQUITY AND LIABILITIES	168,118,416	(731,606)	(1,293,008)	166,093,802

34. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (cont'd)

(ii) New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2018 (cont'd)

(b) Reconciliation of profit or loss and other comprehensive income

	31 December 2017			
	Previously stated	**Effects of MFRS 9**	**Effects of MFRS 15**	**Restated**
	RM	**RM**	**RM**	**RM**
Revenue	115,241,563	0	(3,798,336)	111,443,227
Cost of sales	(76,389,705)	0	2,485,979	(73,903,726)
Gross profit	38,851,858	0	(1,312,357)	37,539,501
Other operating income	1,398,125	0	19,349	1,417,474
Selling and distribution cost	(20,750,798)	0	928,450	(19,822,348)
Administrative and other expenses	(13,996,270)	(127,765)	0	(14,124,035)
Finance costs	(3,258,937)	0	0	(3,258,937)
Profit before tax	2,243,978	(127,765)	(364,558)	1,751,655
Tax expense	(1,976,350)	0	0	(1,976,350)
Profit for the financial year	267,628	(127,765)	(364,558)	(224,695)
Other comprehensive income, net of tax	0	0	0	0
Total comprehensive income	267,628	(127,765)	(364,558)	(224,695)

Notes to the reconciliations

(aa) The Group expects an increase in impairment for trade receivables and amounts due from associates because MFRS 9 replaces the current ‘incurred loss’ model with a forward-looking ‘expected credit loss’ model.

(bb) The Group expects a decrease in revenue and recognises of deferred revenue due to the effect of changes to the timing of revenue recognition for identified performance obligations arising from sales activities upon adoption of MFRS 15.

ANALYSIS OF SHAREHOLDINGS
AS AT 30 MARCH 2018

Total number of issued shares	:	308,700,045 ordinary shares
Class of Shares	:	Ordinary shares
Voting Rights	:	One vote per ordinary share

DISTRIBUTION SCHEDULE OF SHAREHOLDERS

SIZE OF HOLDINGS		NO. OF HOLDERS	%	NO. OF ISSUED SHARES	%
1	- 99	77	3.27	3,593	0.00
100	- 1,000	129	5.47	63,521	0.02
1,001	- 10,000	849	36.01	5,653,450	1.83
10,001	- 100,000	1,080	45.80	37,527,100	12.16
100,001	- 15,435,001 (*)	219	9.29	146,197,577	47.36
15,435,002	- AND ABOVE (**)	4	0.16	119,254,804	38.63
	TOTAL	**2,358**	**100.00**	**308,700,045**	**100.00**

NOTES:
* *Less than 5% of issued shares*
** *5% And above of issued shares*

LIST OF 30 LARGEST SHAREHOLDERS AS AT 30 MARCH 2018

No.	Name	NO. OF ISSUED SHARES	%
1	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATO' H'NG CHOON SENG	42,600,000	13.80
2	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATO' H'NG CHOON SENG	35,000,000	11.34
3	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KEE SWEE LAI	18,430,000	5.97
4	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KEE SWEE LAI	13,970,000	4.53
5	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATO' H'NG CHOON SENG	13,700,000	4.44
6	KEE SWEE LAI	13,477,305	4.37
7	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATO' H'NG CHOON SENG	12,215,082	3.96
8	KEE SWEE LAI	9,747,499	3.16
9	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEH CHAI LUANG (6000327)	7,250,000	2.35
10	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KEE SWEE LAI (7004704)	7,000,000	2.27
11	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATIN KHOR MOOI KIM (6000331)	6,500,000	2.11

LIST OF 30 LARGEST SHAREHOLDERS AS AT 30 MARCH 2018 (CONT'D)

No.	Name	NO. OF ISSUED SHARES	%
12	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR DATO' H'NG CHOON SENG (6000724)	6,500,000	2.11
13	HENG HUAT MANUFACTURER SDN BHD	6,187,500	2.00
14	DATO' H'NG CHOON SENG	3,275,421	1.06
15	CHING MENG HAK	2,703,500	0.88
16	NG KENG HUAT	2,348,000	0.76
17	CHEONG KOK CHOY	2,000,000	0.65
18	MERCSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SIOW WONG YEN @ SIOW KWANG HWA	2,000,000	0.65
19	KHOR TEIK BOON	1,719,000	0.56
20	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEOH WOOI HANG	1,418,300	0.46
21	OO KWANG TUNG	1,249,200	0.40
22	JF APEX NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR HO MAN KA (STA 8)	1,024,500	0.33
23	SONG AH LEK	1,016,300	0.33
24	H'NG LEE MOOI	1,009,500	0.33
25	KHOR SOO KHOON	1,000,000	0.32
26	KEE SWEE BOON	900,000	0.29
27	CHEONG LAI HOONG	880,000	0.29
28	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM LEE HUANG (E-BMM)	870,000	0.28
29	ONG CHIN CHAI	840,000	0.27
30	GOH KAY CHUAN	838,800	0.27
	TOTAL	**217,669,907**	**70.54**

DIRECTORS' SHAREHOLDINGS
AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 30 MARCH 2018

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**% of Shares**	**No. of Shares**	**% of Shares**
Dato' H'ng Choon Seng	113,881,877	36.89	6,464,500*	2.09
Kee Swee Lai	62,624,804	20.29	-	-
Lim Ghim Chai	500,000	0.16	-	-
Datin Khor Mooi Kim	6,768,570	2.19	-	-
Teh Chai Luang	7,434,780	2.41	-	-
Khor Teik Boon	1,719,000	0.56	1,009,500^	0.33

* *Deemed interested by virtue of his shareholding in Heng Huat Manufacturer Sdn. Bhd. pursuant to Section 8 of the Companies Act, 2016 and shares held by his daughter.*

^ *Deemed interested through the shareholdings of his spouse to Section 59(11)(c) of the Companies Act, 2016 in Malaysia.*

SUBSTANTIAL SHAREHOLDERS
AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 30 MARCH 2018

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**% of Shares**	**No. of Shares**	**% of Shares**
Dato' H'ng Choon Seng	113,881,877	36.89	6,464,500*	0.02
Kee Swee Lai	62,624,804	20.29	-	-
	176,506,681	57.18	6,464,500	0.02

* *Deemed interested by virtue of his shareholding in Heng Huat Manufacturer Sdn. Bhd. pursuant to Section 8 of the Companies Act, 2016 and shares held by his daughter.*

LIST OF PROPERTIES

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure/ Approximate age of Building (Year)	Land Area/ Built–up Area (sq ft)	Audited NBV as at 31 December 2017 RM'000	Date of Acquisition
HK Kitaran	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/ 8 years	239,580/ 78,000	9,198	09.05.2012
HK Kitaran	Title: No. H.S.(D) 6719 Lot 2945, Mukim 4 Daerah Seberang Perai Selatan Pulau Pinang Address: 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/ 6 years	178,160/ 80,000	8,145	23.06.2010
Fibre Star	Title: No. H.S.(D) 8763 Lot No. 2489, Mukim 5 Daerah Seberang Perai Selatan Pulau Pinang Address: 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/ 5 years	69,696/ 30,000	2,808	11.05.2012

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure/ Approximate age of Building (Year)	Land Area/ Built–up Area (sq ft)	Audited NBV as at 31 December 2017 RM'000	Date of Acquisition
HK Fibre	Title: HSM 2/97A, PT 345 Kg Kemayang, Mukim Senak Jajahan Bachok Kelantan Darul Naim ("Plant 6") Address: Lot 345, Kg. Kemayang Tawang 16020 Bachok Kelantan Darul Naim	Double storey office cum staff accommodation and a single storey detached factory/Used for coconut fibre, coconut peat and coconut fibre sheets manufacturing	99 years, Expiring on 18.08.2096/ 11 years	89,690/ 40,483	1,255	24.04.2012
HK Gua Musang	Title: PN 1828, Lot 551 Bandar Gua Musang Jajahan Gua Musang Negeri Kelantan ("Plant 7") Address: Lot 551, Kawasan Perindustrian Gua Musang Bandar Gua Musang, Jajahan Gua Musang, 18300 Gua Musang Kelantan Darul Naim	Double storey office annexed with a single storey detached factory/ Used for oil palm EFB fibre manufacturing	66 years, Expiring on 24.07.2051/2 year	478,574/ 152,460	14,712	19.08.2015

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Seventh Annual General Meeting of Heng Huat Resources Group Berhad ("Heng Huat" or the "Company") will be held at Majestic Hall, 1st Floor, Bukit Jawi Golf Resort Berhad, Lot 414, MK 6, Jalan Paya Kemian Sempayi, 14200 Sungai Jawi, Seberang Perai Selatan, Pulau Pinang on Thursday, 31 May 2018 at 2.30 p.m for the transaction of the following business:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2017 together with the Reports of the Directors and Auditors thereon.

2. To approve the payment of Directors' fees of RM132,000 for the financial year ended 31 December 2017. **Ordinary Resolution 1**

3. To approve the payment of Directors' remuneration (excluding Directors' fees) of not exceeding RM10,000 from 1 June 2018 until the next Annual General Meeting of the Company. **Ordinary Resolution 2**

4. To re-elect the following Directors retiring pursuant to Article 81 of the Company's Articles of Association and who, being eligible, offer themselves for re-election:-

   (i) Dato' H'ng Choon Seng **Ordinary Resolution 3**
   (ii) Mr. Kee Swee Lai **Ordinary Resolution 4**
   (iii) Mr. Lim Ghim Chai **Ordinary Resolution 5**

5. To re-appoint Messrs. BDO as Auditors of the Company and to authorise the Directors to fix their remuneration. **Ordinary Resolution 6**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions, with or without modification, as Ordinary Resolutions :

6. **AUTHORITY UNDER SECTIONS 75 AND 76 OF THE COMPANIES ACT, 2016 FOR THE DIRECTORS TO ISSUE SHARES**

   "THAT, subject always to the Companies Act, 2016 ("the Act"), the Articles of Association of the Company and the approvals of the relevant government and/ or regulatory authorities, the Directors be and are hereby authorised, pursuant to Sections 75 and 76 of the Act, to allot and issue shares in the Company at any time until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier and to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deemed fit, provided that the aggregate number of shares to be issued does not exceed 10% of the total number of issued shares of the Company for the time being and that the Directors are also empowered to obtain the approval from Bursa Malaysia Securities Berhad for the listing of and quotation for the additional shares to be issued." **Ordinary Resolution 7**

7. **PROPOSED NEW AND RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("PROPOSED SHAREHOLDERS' MANDATE")**

   "THAT subject to the provisions of the Articles of Association of the Company and the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be hereby given to the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the related party as set out in Section 2.3 of the Circular to Shareholders dated 30 April 2018, provided that such transactions are necessary for the day-to-day operations; and undertaken in the ordinary course of business, on arm's length basis, on normal commercial terms which are not more favourable to the related party than those generally available to the public and are not detrimental to the minority shareholders of the Company.

   THAT such approval shall continue to be in force until:-

   (a) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which such mandate was passed, at which time it will lapse, unless by a resolution passed at the AGM, the authority is renewed;

   (b) the expiration of the period within which the next AGM of the Company after that date is required by law to be held pursuant to Section 340(2) of the Companies Act, 2016 ("Act") (but shall not extend to such extension as may be allowed by law pursuant to Section 340(4) of the Act); or

   (c) revoked or varied by a resolution passed by the shareholders in a general meeting;

   whichever is the earlier;

   AND THAT the Board be and is hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to the Proposed Shareholders' Mandate." **Ordinary Resolution 8**

8. To transact any other business of which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 2016.

BY ORDER OF THE BOARD

OOI YOONG YOONG (MAICSA 7020753)
Secretary
Penang
30 April 2018

Notes:-
Appointment of Proxy

1. A member of the Company entitled to attend and vote is entitled to appoint any person as his proxy to attend and vote in his stead. There is no restriction as to the qualification of the proxy.

2. This instrument duly completed must be deposited at the registered office of the Company at 39 Salween Road, 10050 Penang or such other place as is specified for that purpose not less than forty eight (48) hours before the time for holding the meeting.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if such appointor is a corporation, under its Seal or the hand of its attorney.

4. A member shall not, subject to Paragraph (5) below, be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member appoints more than one (1) proxy to attend and vote at the same meeting, the appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy.

5. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

General Meeting Record of Depositors

6. Only a depositor whose name appears on the Record of Depositors of the Company as at 23 May 2018 shall be entitled to attend this Annual General Meeting or appoint proxies to attend, speak and/or vote on his/her behalf.

Ordinary Business

7. **Ordinary Resolution 2 – Proposed payment of Directors' remuneration (excluding Directors' fees) of not exceeding RM10,000 from 1 June 2018 until the next AGM of the Company.**

   The proposed Directors' benefits payable comprises allowances and other benefits.

   The total estimated amount of Directors' benefits payable is calculated based on the number of scheduled Board's and Board Committees' meetings from 1 June 2018 until the next Annual General Meeting. This authority, unless revoked or varied by the Company in a general meeting will expire at the conclusion of the next Annual General Meeting of the Company.

Special Business

8. **Ordinary Resolution 7 - Authority under Sections 75 and 76 of the Companies Act, 2016 for the Directors to issue shares**

   The proposed Ordinary Resolution 7, if passed, will give authority to the Board of Directors to issue and allot ordinary shares in the Company at any time in their absolute discretion and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting which will lapse at the conclusion of the Seventh Annual General Meeting.

   This renewed general mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

9. **Ordinary Resolution 8 - Proposed New and Renewal of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature ("Proposed Shareholders' Mandate")**

   The proposed resolution, if passed, will allow the Group to enter into recurrent related party transactions of a revenue or trading nature pursuant to the provisions of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad.

   This authority shall continue in force until the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting is required by law to be held (but will not extend to such extension as may be allowed by law or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier.

   Please refer to the Circular to Shareholders dated 30 April 2018 for further information.

   Personal data privacy:
   By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(PURSUANT TO RULE 8.29(2) OF THE LISTING REQUIREMENTS OF BURSA SECURITIES)

1. **Details of individuals who are standing for election as Directors (excluding Directors standing for re-election)**

   No individual is seeking for election as Director at the forthcoming 7th Annual General Meeting ("AGM") of the Company.

2. **Renewal of general mandate for issue of securities in accordance with Paragraph 6.04(3) of Listing Requirements**

   The Company is seeking for shareholders' approval on the general mandate for issue of securities. The details of the proposed authority for Directors to issue shares in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note on Special Business (Ordinary Resolution 7) of the Notice of AGM.

HENG HUAT RESOURCES GROUP BERHAD
(Company No. 969678-D) (Incorporated in Malaysia)

CDS account number

PROXY FORM

"A" I/We,____________________(NRIC/Passport/Company No.________________)

of____________________being a Member of the abovenamed Company, hereby

appoint________________(NRIC/Passport No.____________________)

of____________________or failing whom,________________

(NRIC/Passport No.____________) of______________or failing whom, the Chairman as my/our proxy to vote for me/us and on my/our behalf at the Seventh Annual General Meeting (7th AGM) of the Company, to be held at Majestic Hall, 1st Floor, Bukit Jawi Golf Resort Berhad, Majestic Hall, 1st Floor, Lot 414, MK 6, Jalan Paya Kemian Sempayi, 14200 Sungai Jawi, Seberang Perai Selatan, Pulau Pinang on Thursday, 31 May 2018 at 2.30 p.m. and, at every any adjournment thereof.

"B" Where it is desired to appoint a second proxy, this section must also be completed, otherwise it should be deleted.

I/We,____________________(NRIC/Passport/Company No.________________)

of____________________being a Member of the abovenamed Company, hereby

appoint____________________(NRIC/Passport No.________________)

of____________________or failing whom,________________

(NRIC/Passport No.____________) of ______________or failing whom, the Chairman as my/our proxy to vote for me/us and on my/our behalf at the 7th AGM and at every any adjournment thereof.

The proportions of my/our holding to be represented by/our proxies are as follows:

	No. of Shares	Percentage
First Proxy "A"		%
Second Proxy "B"		%
		100%

My/our proxy/proxies shall vote as follows:

Ordinary Resolutions		**First Proxy "A"**		**Second Proxy "B"**	
		For	**Against**	**For**	**Against**
1.	To approve the payment of Directors' fees of RM132,000 for the financial year ended 31 December 2017.				
2.	To approve the payment of Directors' remuneration (excluding Directors' fees) of not exceeding RM10,000 from 1 June 2018 until the next AGM of the Company.				
3.	To re-elect Dato' H'ng Choon Seng as Director of the Company.				
4.	To re-elect Mr. Kee Swee Lai as Director of the Company.				
5.	To re-elect Mr. Lim Ghim Chai as Director of the Company.				
6.	To re-appoint Messrs. BDO as Auditors of the Company and to authorize the Directors to fix their remuneration.				
7.	Authority under Sections 75 and 76 of the Companies Act, 2016 for the Directors to issue shares.				
8.	Proposed Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.				

(Please indicate with an "X" in the appropriate space provided above on how you wish your vote to be cast. If you do not indicate how you wish your proxy to vote on any resolution, the proxy may vote or abstain from voting as he thinks fit.)

Dated this______day of________, 2018.

Number of shares held

Signature of Member____________________

Notes:-
1. A member of the Company entitled to attend and vote is entitled to appoint any person as his proxy to attend and vote in his stead. There is no restriction as to the qualification of the proxy.
2. This instrument duly completed must be deposited at the registered office of the Company at 39 Salween Road 10050 Penang or such other place as is specified for that purpose not less than forty eight (48) hours before the time for holding the meeting.
3. The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing or if such appointor is a corporation, under its Seal or the hand of its attorney.
4. A member shall not, subject to Paragraph (5) below, be entitled to appoint more than two (2) proxies to attend and vote at the same meeting. Where a member appoints more than one (1) proxy to attend and vote at the same meeting, the appointment shall be invalid unless the member specifies the proportion of his shareholding to be represented by each proxy.
5. Where a member of the Company is an exempt authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.
6. Completed Form of Proxy sent through facsimile transmission shall not be accepted.

Please fold across the line and close

stamp
here

To:

The Company Secretary
HENG HUAT RESOURCES GROUP BERHAD (969678-D)
39 Salween Road
10050 Penang

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HENG HUAT RESOURCES GROUP BERHAD (969678-D)

Lot 2945 (Plot A2), Jalan Sungai Baong,
Kawasan Perindustrian Perabut Sungai Baong,
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