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Heng Huat Resources Group Berhad
(969678-D)

Our **Commitment** is our **Continuous Improvement**

ANNUAL REPORT **2016**

CONTENTS

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 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 and HK Palm Fibre Manufacturer Sdn Bhd.

We treat and process coconut husks and oil palm EFB 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 fibres 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.

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 Manufacturing

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

H'ng Choon Seng
Managing Director

Kee Swee Lai
Deputy Managing Director

Lim Ghim Chai
Executive Director

Khor Mooi Kim
Executive Director

Teh Chai Luang
Executive Director

Khor Teik Boon
Executive Director

Cheah Swi Chun
Independent Non-Executive Director

Lo Liang Kheng
Independent Non-Executive Director

AUDIT COMMITTEE

Chairman
Cheah Swi Chun

Members
Lo Liang Kheng
Dato' Juzilman Bin Basir

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
Lim Ghim Chai

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)
Public Bank Berhad (6463-H)
Hong Leong Bank Berhad (97141-X)

SPONSOR

Kenanga Investment Bank Berhad (15678-H)
Level 17, Kenanga Tower
237, Jalan Tun Razak
50400 Kuala Lumpur, Malaysia
Tel : (603) 2172 2888
Fax : (603) 2172 2999
Toll free : 1 800 88 2274

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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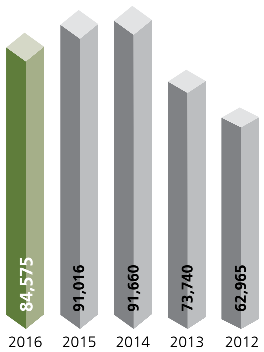
Heng Huat Resources Group Berhad
(969678-D)

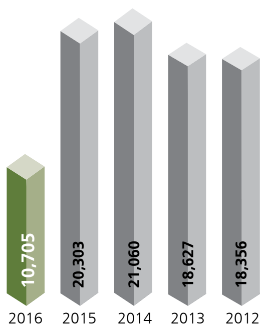
- 100% Fibre Star (M) Sdn Bhd (973296-M)
- 100% Fibre Star Marketing Sdn Bhd (973299-X)
- 100% Heng Huat Industries Holdings Sdn Bhd (779222-P)
  - 97% HK Fibre Sdn Bhd (765548-H)
  - 100% HK Kitaran Sdn Bhd (881898-X)
  - 100% HK Mega Industries Sdn Bhd (776763-X)
  - 50% HK Palm Fibre Manufacturer Sdn Bhd (859511-M)
- 100% HK Gua Musang Sdn Bhd (1110062-W)
- 100% HK Power Sdn Bhd (1110063-K)

FINANCIAL HIGHLIGHTS

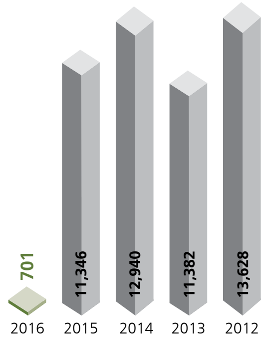
REVENUE
(RM'000)



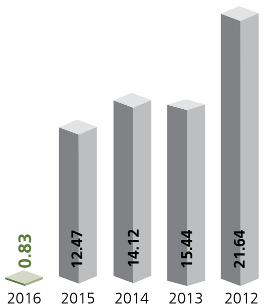
EBITDA
(RM'000)



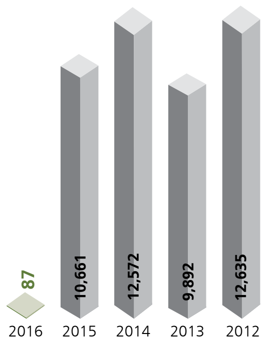
PBT
(RM'000)



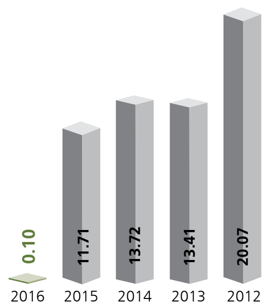
PBT MARGIN
(%)



PAT
(RM'000)



PAT MARGIN
(%)



	Financial Year Ended 31 December				
	Pro Forma	Audited			
	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000
Revenue	62,965	73,740	91,660	91,016	84,575
Gross Profit	30,576	31,978	39,300	36,520	29,343
Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)	18,356	18,627	21,060	20,303	10,705
Profit Before Tax (PBT)	13,628	11,382	12,940	11,346	701
PBT Margin	21.64	15.44	14.12	12.47	0.83
Profit After Tax (PAT)	12,635	9,892	12,572	10,661	87
PAT Margin (%)	20.07	13.41	13.72	11.71	0.10
Gross Earnings Per Share (Gross EPS) (Sen)	8.55[(1)]	7.14[(1)]	7.20[(4)]	4.48[(4)]	0.23
Net Earnings Per Share (Net EPS) (Sen)	7.64[(2)]	6.11[(2)]	5.72[(4)]	3.47[(4)]	0.01
Diluted Net EPS (Sen)	5.91[(3)]	6.11[(4)]	5.72[(4)]	3.47[(4)]	0.01

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) *Calculated based on PAT attributable to owners of Heng Huat divided by our enlarged issued and paid-up share capital after our IPO of 205,800,030 Shares.*
(4) *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.*

MANAGEMENT DISCUSSION AND ANALYSIS

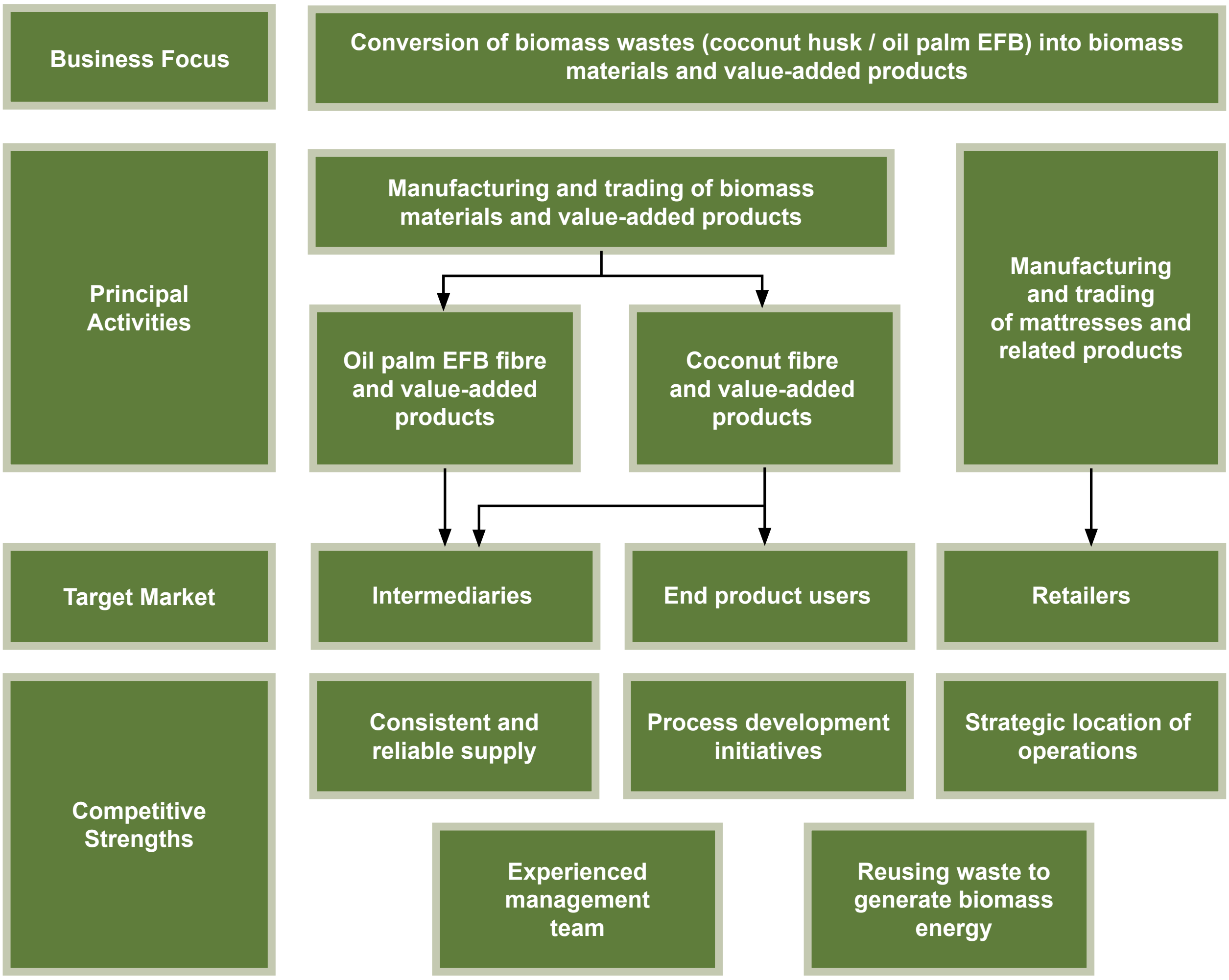
OVERVIEW OF THE GROUP'S OPERATIONS

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION

▪ ***Financial performance***

	2016 RM'000	2015 RM'000	Year-on-Year Variance (%)
Revenue			
- Biomass materials and value added products	60,510	65,430	- 7.52
- Mattresses and related products	24,065	25,586	- 5.94
	84,575	**91,016**	- 7.08
Profitability			
Gross profit ("GP")	29,343	36,520	- 19.65
▪ GP margin	34.69%	40.12%	
Profit before tax ("PBT")	701	11,346	- 93.82
▪ PBT margin	0.83%	12.47%	
Net profit for the year ("PAT")	87	10,661	- 99.18
▪ PAT margin	0.10%	11.71%	

Our Group recorded total revenue of RM84.58 million for the financial year ended ("FYE") 31 December 2016, decreased by approximately RM6.44 million or 7.08% as compared to the preceding year. This was primarily due to lower revenue from both the biomass division as well as the mattress division, where the sales during the financial year under review decreased by approximately 7.52% and 5.94% respectively, as compared to the preceding year.

The moderation of sales performance of the biomass division during the financial year under review was primarily due to decrease in average selling prices of oil palm EFB fibre, as a result of the following:

i. Price revision implemented by the Group in view of the prevailing economic uncertainties, in order to strengthen the Group's market competitiveness; and

ii. Change in the destination mix. Selling price varies according to the respective destination ports in China after taking into consideration the port's and freight charges.

Lower sales from mattress division during the financial year under review was primarily due to softened retail demands within the domestic market, as a result of the consumers being more prudent in spending amid the economic uncertainties.

Our Group's gross profit for the financial year under review stood at RM29.34 million, lower by approximately RM7.18 million or 19.65% as compared to the preceding year primarily due to the moderation of sales performance as mentioned above.

Our Group's PBT and PAT for the financial year under review declined to RM0.70 million and RM0.09 million respectively, from RM11.35 million and RM10.66 million respectively in the preceding year. The unprecedented decrease was primarily due to the following factors:

i. Lower sales and gross profit achieved for the financial year under review as explained above;

ii. Lower other income recorded during the financial year under review, which had halved from RM4.34 million in the preceding year to RM2.09 million, as a result of overall decrease in foreign exchange gain.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION (CONT'D)

- ***Financial performance***

iii. 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 RM0.78 million or 5.18% as compared to prior year, primarily due to higher transportation costs incurred. This was in line with a 5.81% increase in sales volume of oil palm EFB fibre during the financial year under review.

- Administrative and other expenses increased marginally by approximately RM0.35 million or 2.75% as compared to prior year, in line with our Group's on-going expansion at Gua Musang. Administrative and other expenses are primarily semi-fixed in nature and hence, do not necessarily fluctuate in consistent trend with our sales performance.

- Finance costs was higher by RM0.09 million or 5.40% 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***

	2016	2015	Year-on-Year
	RM'000	RM'000	Variance (%)
Total assets	159,311	133,012	+19.77
Total liabilities	79,769	51,966	+53.50
Shareholders' equity	75,836	75,791	+ 0.06
Net assets per share (sen)	**24.57**	**24.55**	

As at 31 December 2016, our Group's total assets base stood at RM159.31 million representing 19.77% increase as compared to the preceding year, in line with our Group's on-going expansion at Gua Musang.

As at 31 December 2016, our shareholders' equity remained at a positive level, stood at RM75.84 million (2015: RM75.79 million), largely consistent with prior year.

- ***Liquidity***

	2016	2015	Changes
	(Days)	(Days)	(Days)
Trade receivables' turnover period[1]	108	120	- 12 days
Inventories' turnover period[2]	49	51	- 2 days
Trade payables' turnover period[2]	30	34	- 4 days
Cash conversion cycle	**127**	**137**	- 10 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*

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION (CONT'D)

- ***Liquidity (CONT'D)***

Our Group managed to improve the cash conversion cycle from 137 days in the FYE 2015 to 127 days in the FYE 2016. This was in line with our Group's active collection controls, which had helped to reduce the amount of receivables' balances exceeding credit terms from RM14.2 million as at 31 December 2015 to RM3.98 million as at 31 December 2016.

	2016	2015
	RM'000	RM'000
Cash flows from operating activities	17,994	15,610
Cash flows used in investing activities	(26,547)	(24,778)
Cash flows from/(used in) financing activities	6,328	(1,385)
Net movements in cash and cash equivalents	**(2,225)**	**(10,553)**
Cash and cash equivalents at end of financial year:		
- Cash and bank balances	8,847	8,109
- Deposits with licensed banks	2,550	2,360
	11,397	10,469
Less		
Deposits pledged to licensed banks	(2,550)	(2,360)
Bank overdrafts	(6,413)	(3,449)
	2,434	**4,660**
Current ratio (times)	**0.91**	**1.36**

Our Group maintained a positive cash reserve as of 31 December 2016, with net cash and cash equivalents stood at RM2.43 million (31 December 2015: RM4.66 million).

During the financial year under review, our Group recorded a negative movements in cash and cash equivalents despite an improved cash inflows from operating activities. 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 has reduced from 1.36 times in 2015 to 0.91 times for the financial year under review, as a result of internal cash reserves being utilised for capital expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL RESULTS & CONDITION (CONT'D)

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

Capital Commitment	2016 RM'000	2015 RM'000
Capital expenditure in respect of purchase of property, plant and equipment:		
- Approved but not contracted for	-	8,818
- Contracted but not provided for	1,868	13,169
	1,868	**21,987**

As of 31 December 2016, our Group's planned capital expenditure had reduced significantly in view of the expansion at Gua Musang is near completion.

Borrowings	2016 RM'000	2015 RM'000
Short terms (repayable within 12 months)	30,193	18,945
Long terms (repayable beyond 12 months)	25,516	13,943
	55,709	**32,888**
Gearing ratio (times) Borrowings / Shareholders' Equity	**0.73**	**0.43**

During the financial year under review, our Group's gearing ratio increased to 0.73 times from 0.43 times in the preceding year, in line with the increase in borrowings by RM22.82 million or 69.39% from RM32.89 million in the preceding year to RM55.71 million as at 31 December 2016.

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

The Group's borrowings increased by RM22.82 million or 69.39% from RM32.89 million in preceding year to RM55.71 million was primarily due to:

- Increase in the utilisation of bankers' acceptance and bank overdraft facilities by approximately RM7.89 million in aggregate, to enhance the cash flows for working capital purposes; and
- Net increase in term loans and hire purchase by approximately RM9.37 million and RM5.56 million respectively, primarily due to additional drawdowns to part finance the expansion at Gua Musang.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

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. Barring any unforeseen circumstances and subject to obtaining of the requisite approvals from the relevant authorities, the Proposed Acquisition of the Power Plant and its construction is expected to be completed within first half of 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.

ANTICIPATED OR KNOWN RISKS

Principal Risks	Descriptions / Consequences	Strategies to Mitigate Risk
1) 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

Board of Directors

FORWARD LOOKING STATEMENT

- **PROSPECT**

  For the near future, our Group expects the orders for oil palm EFB fibre from China will experience greater degree of volatility due to the prevailing economic uncertainties. Notwithstanding that, our Group remains 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.

  Our Group will monitor the market development closely, and ensure that prompt actions are taken in response to the changes. Barring any unforeseen circumstances and adverse external economic factors, our Group's financial performance for the financial year ending 31 December 2017 is expected to remain positive.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

○ 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.

Golden Eagle Award Ceremony

Blood Donation 2016


DIRECTORS' PROFILE

DATO' JUZILMAN BIN BASIR
Independent
Non-Executive Chairman
Malaysian, Male, aged 60

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 and Remuneration Committee of the Company.

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

He was the Chief Executive Officer of Felcra Berhad from 2010 until his retirement in 2013. He does not hold any directorship in other public companies in Malaysia.

He attended all seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

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 five (5) years other than traffic offences, if any.

DIRECTORS' PROFILE (CONT'D)

H'NG CHOON SENG
Managing Director
Malaysian, Male, aged 50

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 over thirty-three (33) years of experience in the furniture and biomass material industries. As our Managing Director, he is responsible for overseeing our Group's operations and has been instrumental in the growth and development of our Group.

Mr H'ng started his career in 1983 when he joined a home-based furniture manufacturer in Jawi, Penang. In 1986, he started his own home-based furniture manufacturing and trading businesses under Chiang Wei Enterprise and Heng Huat Industries Enterprise respectively. In 1997, he established 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 six (6) out of seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

He is the spouse of 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 five (5) years other than traffic offences, if any.

DIRECTORS' PROFILE (CONT'D)

KEE SWEE LAI
Deputy Managing Director
Malaysian, Male, aged 54

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 over twenty-nine (29) years of experience in plantation management and factory operations. As our Deputy Managing Director, he is responsible for overseeing our production operations and process development activities and has been instrumental in developing our automated production process.

Mr Kee started his career with Lion Plantation Sdn Bhd in 1987 as a Management Trainee and was subsequently promoted to Plantation Manager in 1989. In 1991, he left Lion Plantation Sdn Bhd and joined PT Riau Sakti Plantations (RSUP) under Sambu Group as an Assistant General Manager and was subsequently promoted to General Manager in 1993. He left PT Riau Sakti Plantations (RSUP) in 2006 and subsequently co-founded HK Fibre 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 seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

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 five (5) years other than traffic offences, if any.

DIRECTORS' PROFILE (CONT'D)

LIM GHIM CHAI
Executive Director
Malaysian, Male, aged 42

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 Remuneration 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 specialises in tax consultancy, business planning consultancy and auditing services. He left Maxwell Business Management and Consultancy in 2006 to venture into his own business of property development and recycling of waste material. In 2012, he joined our Company as an Executive Director and is responsible for overseeing our Group's accounting, finance and corporate exercise activities.

Currently, he is an Independent Non-Executive Director of Asia EP Resources Berhad, a company listed on the ACE Market of Bursa Malaysia Securities Berhad and CAB Cakaran Corporation Berhad.

He attended all seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

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 five (5) years other than traffic offences, if any.

DIRECTORS' PROFILE (CONT'D)

KHOR MOOI KIM
Executive Director
Malaysian, Female, aged 48

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 over twenty-five (25) years of experience in the furniture industry. She does not hold any directorship in other public companies in Malaysia.

She attended all six (6) out of seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

She is the spouse of 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 five (5) years other than traffic offences, if any.

DIRECTORS' PROFILE (CONT'D)

TEH CHAI LUANG
Executive Director
Malaysian, Female, aged 51

Teh Chai Luang is our Executive Director and was appointed to our Board on 28 May 2012. She completed her high school education in 1984 at Sekolah Menengah Kebangsaan Methodist (ACS) in Parit Buntar, Perak. In the same year, she started her career in her family's rattan container business and was attached to her family business until 1991. In 1991, she joined 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 over twenty-five (25) years of experience in the furniture industry. She does not hold any directorship in other public companies in Malaysia.

She attended all seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

She is the sister-in-law to H'ng Choon Seng. 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.

DIRECTORS' PROFILE (CONT'D)

KHOR TEIK BOON
Executive Director
Malaysian, Male, aged 45

Khor Teik Boon is our Executive Director and was appointed to our Board on 28 May 2012. He completed his high school education at Sekolah Menengah Kebangsaan 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 over twenty-seven (27) 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 seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

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

DIRECTORS' PROFILE (CONT'D)

CHEAH SWI CHUN
Independent Non-Executive Director
Malaysian, Male, aged 44

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 and Remuneration 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 two (2) out of seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

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 five (5) years other than traffic offences, if any.

DIRECTORS' PROFILE (CONT'D)

LO LIANG KHENG
Independent
Non-Executive Director
Malaysian, Male, aged 53

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 and Nomination 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 Vice President 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 all seven (7) Board of Directors' Meeting held in the financial year ended 31 December 2016.

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 five (5) years other than traffic offences, if any.

KEY SENIOR MANAGEMENT PROFILE

Cheng Pek Tong
Chief Finance Officer
Malaysian, Male, aged 38

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 five (5) years other than traffic offences, if any.

Sim Kok Siang
General Manager
Malaysian, Male, aged 38

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 five (5) years other than traffic offences, if any.

KEY SENIOR MANAGEMENT PROFILE (CONT'D)

Liang Yee Siew
Group Accountant
Malaysian, Female, aged 42

Liang Yee Siew is our Group Accountant and was appointed on 21 October 2014. She graduated with a Bachelor of Commerce (Accounting) from La Trobe University, Australia in 1995. She is a member of the Malaysian Institute of Accountants and a Certified Practicing Accountant of Australia. She started her career with Hew & Tan in 1996 as an Audit Junior and was subsequently promoted to Audit Senior. In 1997, she joined Industri Otomotif Komersial (M) Sdn Bhd (INOKOM) as Administrative cum Purchasing Executive. She left INOKOM and joined Oliotech Marketing Sdn Bhd as an Accountant in 1998. In 2009, she joined Konsortium Bas Ekspres Semenanjung (M) Sdn Bhd as an Assistant Account Manager. In 2011, she joined Texchem Group as Assistant Finance Manager and was subsequently promoted to Finance Manager (Management Accounting). She joined our Group in 2014 as Group Accountant.

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.

Wong Chee Wei
Factory Manager
Malaysian, Male, aged 38

Wong Chee Wei is our Factory Manager and was appointed on 18 July 2016. After completing his high school education in 1998, he obtained a certificate in Mechatronic from Penang Skills Development Centre in 2001. He then joined Kah Hong Plastic Industrial Sdn Bhd as an Electrical Technician in the same year and was promoted to Assistant Manager in 2003. In 2008, he left Kah Hong Plastic Industrial Sdn Bhd and joined Seng Chong Precision Sdn Bhd as a Production Executive. He joined our Group as a Production Executive in 2010 and was subsequently promoted to Factory Manager in 2016. He is currently responsible for supervising the factory 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 five (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

STATEMENT ON CORPORATE GOVERNANCE

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 2012 **("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 paragraphs 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 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

Principal Responsibilities 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 and the Remuneration 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.

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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

Board Charter

A formal board charter **("the Charter")** has been drawn up and adopted by the Board in accordance with Recommendation 1.7 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

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 Recommendation 1.3 of the Code. The Code of Conduct is available for reference on the Company's corporate website.

Strategies Promoting Sustainability

The Board is congisant of the importance of maintaining a sustainable business and takes into consideration environmental, social and governance **("ESG")** impact when developing the corporate strategy. The Group's activities on ESG for the financial year under review are disclosed on page 40 to 41 of this Annual Report.

Board Meeting and Supply of Information

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, seven (7) Board meetings have been called. The attendance of the individual Directors at the Board meetings are as follows:

	Attendance of Meeting
<u>Executive Directors</u>	
H'ng Choon Seng	6/7
Kee Swee Lai	7/7
Lim Ghim Chai	7/7
Khor Mooi Kim	6/7
Teh Chai Luang	7/7
Khor Teik Boon	7/7

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (CONT'D)

Board Meeting and Supply of Information (Cont'd)

		Attendance of Meeting
Independent Non-Executive Directors		
Dato' Juzilman Bin Basir		7/7
Lo Liang Kheng		7/7
Cheah Swi Chun	(Appointed on 02 August 2016)	2/2 (i)
Ng Boon Kang	(Resigned on 02 August 2016)	3/5 (ii)

Notes
(i) Two (2) meetings were held subsequent to his appointment and up to 31 December 2016.
(ii) Five (5) meetings were held prior to his resignation.

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.

Company Secretary

The Board is supported by a licensed Company Secretary. The Company Secretary plays an advisory role to the Board in relation to the Company's constitution, 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 2 – STRENGTHEN COMPOSITION

Three (3) Board Committees have been established to assist the Board in discharging its duties and responsibilities, namely the Audit Committee, the Nominating Committee and the Remuneration Committee.

The Board Committees operate within their respective clearly defined terms of reference to assist in the effective functioning of the Board. The respective Board Committees' functions, terms of reference and the authority delegated by the Board are reviewed from time to time to ensure they remain relevant and up to date.

The Board Committees discuss matters within their operating scope in greater details and report to the Board on matters deliberated together with their recommendations for the Board's consideration. The final decisions on all matters shall be subject to the Board's collective approval.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

Nominating Committee

The Nominating Committee shall consist of not less than three (3) members composed exclusively 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:

  (i) Skills, knowledge, expertise and experience;
  (ii) Professionalism;
  (iii) Integrity; and
  (iv) 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, one (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 Constitution, 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	
Cheah Swi Chun *(Independent Non-Executive Director)*	1/1
Lo Liang Kheng *(Independent Non-Executive Director)*	1/1

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

Nominating Committee (Cont'd)

Recommendation 2.1 of the Code advocates that the Chairman of the Nominating Committee should be the Senior Independent Non-Executive Director. The Company complies with this recommendation, with Dato' Juzilman Bin Basir identified as the Senior Independent Non-Executive Director.

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.

Appointment and Re-Election of 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 five (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 Constitution, one-third (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 three (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, 1965 provides that Directors over the age of seventy (70) years are required to subject themselves for re-appointment annually. However, subsequent to the implementation of the new Companies Act 2016, the maximum age for director is abolished. 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 2017 are as stated in the Notice of Annual General Meeting.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

Board Gender Diversity

The Board is cognisant of the gender diversity promoted under Recommendation 2.2 of the Code. The Group currently has two (2) female Executive Directors albeit there is no female Independent Non-Executive Director. The Board is satisfied with the mix of skills, experiences, and industry-specific knowledge gained to-date by the respective Directors and is of the opinion there is no immediate need to revise the present Board's composition. Notwithstanding that, the Board will remain mindful of the gender diversity recommendation advocated by the Code when considering changes to the Board's composition in the future.

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.

Remuneration Committee

The Remuneration Committee shall consist of not less than three (3) members composed exclusively or a majority of Non-Executive Directors and is primarily responsible for the following:

- Recommend to the Board the remuneration package of the Executive Directors and key 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, one (1) meeting of the Remuneration Committee was held and the details of attendance are reflected below:

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

Directors' Remuneration

The details of the remuneration of the Directors for the financial year ended 31 December 2016 are as follows:

Aggregate Directors' Remuneration

	Directors' Fees RM		Salaries and Other Emoluments RM		Total RM	
Directors	**Group**	**Company**	**Group**	**Company**	**Group**	**Company**
Executive Directors	-	-	3,749,010	180,827	3,749,010	180,827
Non-Executive Directors	121,500	121,500	2,850	2,850	124,350	124,350
Grand Total	**121,500**	**121,500**	**3,751,860**	**183,677**	**3,873,360**	**305,177**

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

Directors' Remuneration (Cont'd)

Analysis of Directors' Remuneration

Directors	Executive Directors	Non-Executive Directors
RM50,000 and below	-	3
RM50,001 – RM100,000	-	1
RM150,001 – RM200,000	1	-
RM250,001 – RM300,000	3	-
RM1,150,001 – RM1,200,000	1	-
RM1,450,001 – RM1,500,000	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 is determined by the Board as a whole. Directors are required to abstain from deliberations and voting on decisions concerning their own remuneration.

The Board is of the opinion that disclosure of remuneration by appropriate components and bands is adequate to meet the objectives of the Code.

PRINCIPLE 3 – REINFORCE INDEPENDENCE

Annual Assessment of Independent Non-Executive Directors

The Board will have the Nominating Committee to assess the independence of the Independent Non-Executive Directors on an annual basis and occasions arise which require such assessment.

The Board is satisfied that each of the three (3) Independent Non-Executive Directors has maintained their independence in discharging their duties and responsibilities during the financial year under review, and that each of them continues to fulfil the definition of independence as set out in the Listing Requirements.

Tenure of Independent Non-Executive Directors

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

Upon completion of the nine (9) years, the Independent Non-Executive Director concerned may:

(i) 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

(ii) 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 nine (9) years.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

RINCIPLE 3 – REINFORCE INDEPENDENCE (CONT'D)

Separation of Positions 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.

Composition of the Board

The Board currently consists of nine (9) members, comprising six (6) Executive Directors and three (3) Independent Non-Executive Directors, as follows:

Name	Designation
Dato' Juzilman Bin Basir	Independent Non-Executive Chairman
H'ng Choon Seng	Managing Director
Kee Swee Lai	Deputy Managing Director
Lim Ghim Chai	Executive Director
Khor Mooi Kim	Executive Director
Teh Chai Luang	Executive Director
Khor Teik Boon	Executive Director
Lo Liang Kheng	Independent Non-Executive Director
Cheah Swi Chun	Independent Non-Executive Director

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

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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 4 – FOSTER COMMITMENT

Time Commitment

The Board is satisfied with the time committed by the Directors towards fulfilling their duties and responsibilities as Directors of the Company. This is evidenced by the good attendance record of the individual Directors at Board meetings for the financial year under review.

The Directors are required to notify the Chairman prior to their acceptance of new directorships in other companies notwithstanding that the Listing Requirements allow a Director to sit on the board of five (5) listed issuers. Such notification is expected to include an indication of time that will be spent on the new appointment.

To facilitate the Director's time planning, an annual meeting calendar is prepared and circulated to them before the beginning of every year. Thus, allowing sufficient time for the Directors to make the necessary scheduling. It provides the scheduled dates for meetings of the Board and Board Committees, the AGM, as well as the closed periods for dealing in securities by the Directors based on the targeted dates of announcements of the Group's quarterly results.

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 of the Director	Training Programme
Dato' Juzilman Bin Basir	• Corporate governance practices and latest amendments to listing requirements
H'ng Choon Seng	• Corporate governance practices and latest amendments to listing requirements
Kee Swee Lai	• Corporate governance practices and latest amendments to listing requirements
Lim Ghim Chai	• Corporate governance practices and latest amendments to listing requirements • Tax implication and practical application of intercompany loan transaction
Khor Mooi Kim	• Corporate governance practices and latest amendments to listing requirements
Teh Chai Luang	• Corporate governance practices and latest amendments to listing requirements
Khor Teik Boon	• Corporate governance practices and latest amendments to listing requirements
Lo Liang Kheng	• Corporate governance practices and latest amendments to listing requirements
Cheah Swi Chun	• Mandatory Accreditation Programme • A guide for Audit Committees and Independent Directors • Corporate governance practices and latest amendments to listing requirements

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.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING

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, 1965 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*.

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.

PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS

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 42 to 44 of this Annual Report provides an overview of the state of risk management and internal controls within the Group.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS (CONT'D)

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 45 to page 48 of this Annual Report.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

Corporate Disclosure Policy

The Board is aware of the importance of maintaining a 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.

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

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 twenty-one (21) days prior to the meeting.

STATEMENT ON CORPORATE GOVERNANCE (CONT'D)

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS (CONT'D)

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 one (1) scrutineer, who is independent of the Group and the person undertaking the polling process, to validate the votes casted.

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 20 April 2017.

STATEMENT ON CORPORATE GOVERNANCE (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, 1965 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 2016.

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, 1965 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 20 April 2017.

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY

The Group recognises the significance of corporate social responsibility towards the key stakeholders of the Company, as it believe 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 corporate social responsibility programs and hence, will review and monitor its corporate social responsibility policies from time to time to identify areas for enhancement.

The Group's corporate social responsibility policies and programs encompass four (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 and HK Palm Fibre Manufacturer Sdn Bhd.

  Subsequent to the financial year end, 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.

STATEMENT ON CORPORATE SOCIAL RESPONSIBILITY (CONT'D)

- 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 remain 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 hospital and several community groups to organise a blood donation campaign in August 2016. The Group has encouraged its employees to participate in this meaningful event along with other members of the public.

  In December 2016, the Group has organised an internal community-care event where our staff visited the Happy Retirement Home, a shelter home for the elderly. Apart from financial contribution, our staff also took the opportunity to clean up the shelter home during the visit.

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 ACE Market Listing Requirements ("**Listing Requirements**") of Bursa Malaysia Securities Berhad. This Statement has been prepared in accordance with the *Statement on Risk Management and Internal Control: 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.

RISK MANAGEMENT

During the financial under review, the Group via its Risk Management Committee ("**RMC**") conducted two (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, the RMC also advised that 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, should apply for the ISO 9001 Quality Management to increase market competitiveness of its products.

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;

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL
(CONT'D)

INTERNAL CONTROL (CONT'D)

- 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.

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 two year (2) 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 Bursa Securities 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 Recommended Practice Guide 5 (Revised) 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL
(CONT'D)

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 2016.

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 20 April 2017.

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.

AUDIT COMMITTEE REPORT (CONT'D)

Attendance at Meetings

During the financial year under review, six (6) meetings were held and the details of attendance of each member are as follows:

Members		Attendance of Meetings
Cheah Swi Chun	(Appointed on 02 August 2016)	2/2 (i)
Dato' Juzilman Bin Basir		6/6
Lo Liang Kheng		6/6
Ng Boon Kang	(Resigned on 02 August 2016)	2/4 (ii)

Notes
(i) Two (2) meetings were held subsequent to his appointment and up to 31 December 2016.
(ii) Four (4) meetings were held prior to his resignation.

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 2016:

- Financial Reporting

  (a) Reviewed the unaudited quarterly financial reports prior to recommend 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 recommend 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 New and Renewal of Shareholders' Mandate for Recurrent Related Party Transaction ("RRPT Circular") to Shareholders dated 28 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 recommend to the Board for their re-appointment for financial year ended 2016;

AUDIT COMMITTEE REPORT (CONT'D)

Summary of Activities of the Committee (Cont'd)

- External Auditors

  (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 2016. 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 2016; 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 recommend 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 followings 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 2016;
  - 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;
  - The RRPT Circular dated 28 April 2017; and
  - The performance appraisal of the External Auditors for their re-appointment for the financial year ending 31 December 2017.

AUDIT COMMITTEE REPORT (CONT'D)

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 2016

The areas/departments reviewed include:

i) Production and Plant Operation; and
ii) Research & Development.

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 have been implemented during the financial year under review, as assessed by the Internal Auditors during their follow-up review in July 2016.

(b) Report dated August 2016

The areas/ departments reviewed include:

i) Information System/Technology (IT) Management;
ii) Human Resources (HR) Management; and
iii) Contra Transaction

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 January 2017.

The total internal audit fees payable for the abovementioned reviews carried out during the financial year under review amounted to RM 46,970.

ADDITIONAL COMPLIANCE INFORMATION

AUDIT & NON-AUDIT FEES

	Financial Year Ended 31 December 2016	
	Group RM	Company RM
Audit Fees paid & payable to the External Auditors	109,490	18,390
Non-Audit Fees paid & payable to the affiliated firm of the External Auditors for advisory and corporate tax compliance services rendered	77,800	20,300

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 32 to the Financial Statements on page 114 to 115 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 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 9 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	86,757	(668,114)
Attributable to:		
Owners of the parent	45,153	(668,114)
Non-controlling interests	41,604	0
	86,757	(668,114)

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.

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' REPORT (CONT'D)

DIRECTORS

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

Dato' Juzilman Bin Basir
H'ng Choon Seng
Kee Swee Lai
Lim Ghim Chai
Khor Mooi Kim
Teh Chai Luang
Khor Teik Boon
Lo Liang Kheng
Cheah Swi Chun (Appointed on 2 August 2016)
Ng Boon Kang (Resigned on 2 August 2016)

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 2016 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965 in Malaysia were as follows:

	Number of Ordinary Shares of RM0.10 each			
	Balance as at 1.1.2016	**Bought**	**Sold**	**Balance as at 31.12.2016**
Shares in the Company				
Direct interests:				
H'ng Choon Seng	109,455,167	129,570,083	(122,466,373)	116,558,877
Kee Swee Lai	62,624,804	3,000,000	(3,000,000)	62,624,804
Lim Ghim Chai	5,500,000	0	0	5,500,000
Khor Mooi Kim	7,404,780	1,500,000	(2,136,210)	6,768,570
Teh Chai Luang	7,404,780	1,500,000	(1,500,000)	7,404,780
Khor Teik Boon	1,719,000	0	0	1,719,000
Lo Liang Kheng	40,000	50,000	(5,000)	85,000
Indirect interests:				
H'ng Choon Seng ^	12,375,000	0	(6,187,500)	6,187,500
Khor Teik Boon ^^	1,009,500	0	0	1,009,500

^ *Deemed interest by virtue of his substantial interests in Heng Huat Manufacturer Sdn. Bhd. pursuant to Section 6A of the Companies Act, 1965 in Malaysia.*

^^ *Deemed interested through the shareholdings of his spouse pursuant to Section 134(12)(c) of the Companies (Amendment) Act, 2007 in Malaysia.*

By virtue of their interests in the ordinary shares of the Company, 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.

DIRECTORS' REPORT (CONT'D)

DIRECTORS' INTERESTS (CONT'D)

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

	<—— Number of Ordinary Shares of RM0.10 each ——>			
	Balance as at 1.1.2016	**Bought**	**Sold**	**Balance as at 31.12.2016**
Shares in the subsidiaries				
HK Fibre Sdn. Bhd.				
Indirect interests:				
H'ng Choon Seng	485,000	0	0	485,000
Kee Swee Lai	485,000	0	0	485,000
HK Palm Fibre Manufacturer Sdn. Bhd.				
Indirect interests:				
H'ng Choon Seng	250,000	0	0	250,000
Kee Swee Lai	250,000	0	0	250,000

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 emoluments 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 deemed benefits arising from related party transactions as disclosed in Note 32 to the financial statements and remuneration received by certain Directors as Directors of subsidiaries.

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.

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY

(I) AS AT THE END OF THE FINANCIAL YEAR

(a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, 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 had 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.

DIRECTORS' REPORT (CONT'D)

OTHER STATUTORY INFORMATION REGARDING THE GROUP AND THE COMPANY (CONT'D)

(I) AS AT THE END OF THE FINANCIAL YEAR (CONT'D)

(b) In the opinion of the Directors, the results of the 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 except for:

(i) reversal of impairment loss on trade receivables of RM483,357 of the Group as disclosed in Note 27 to the financial statements;

(ii) fair value adjustment on derivative liability of RM413,628 of the Group as disclosed in Note 27 to the financial statements;

(iii) unrealised gain on foreign exchange of RM710,802 of the Group as disclosed in Note 27 to the financial statements; and

(iv) realised gain on foreign exchange of RM339,830 of the Group as disclosed in Note 27 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 amounts 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 this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

DIRECTORS' REPORT (CONT'D)

AUDITORS

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

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

Lim Ghim Chai
Director

Kee Swee Lai
Director

Penang
20 April 2017

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 61 to 131 have been drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and of the financial performance and cash flows of the Group and of the Company for the financial year then ended.

In the opinion of the Directors, the information set out in Note 37 to the financial statements on page 132 has been compiled in accordance with the Guidance on Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

On behalf of the Board,

Lim Ghim Chai
Director

Kee Swee Lai
Director

Penang
20 April 2017

STATUTORY DECLARATION

I, Lim Ghim Chai, 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 61 to 132 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 20 April 2017

Lim Ghim Chai

Before me,

Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Heng Huat Resources Group Berhad, which comprise the statements of financial position as at 31 December 2016 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 61 to 131.

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 2016, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Basis of Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. 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, in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of trade receivables

As at 31 December 2016, trade receivables of the Group amounted to RM24,844,993 and the associated impairment losses of trade receivables was RM110,713. The details of trade receivables and their credit risk have been disclosed in Note 11 and Note 34(i) to the financial statements.

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 uncertainty regarding the ability of the trade receivables to settle their debts. We focused on the audit risk that the trade receivables may be overstated and hence, further impairment losses may be required.

INDEPENDENT AUDITORS' REPORT

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

Key Audit Matters (Cont'd)

Audit response

Our audit procedures included the following:

(i) evaluated the credit process operated by management over the recoverability of trade receivables of the Group;

(ii) 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

(iii) 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.

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 or 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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements 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 the Group's and the Company's ability 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 International Standards on Auditing 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.

INDEPENDENT AUDITORS' REPORT

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

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

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:

- 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.

- 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 Group's and the Company's internal control.

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

- 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 Group's or the Company's ability 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.

- 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.

- 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.

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.

INDEPENDENT AUDITORS' REPORT

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

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) The audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Reporting Responsibilities

The supplementary information set out in Note 37 to the financial statements is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ('MIA Guidance') and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

BDO
AF : 0206
Chartered Accountants

Chan Wai Leng
2893/08/17 (J)
Chartered Accountant

Penang
20 April 2017

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		GROUP		COMPANY	
		2016	**2015**	**2016**	**2015**
	Note	**RM**	**RM**	**RM**	**RM**
ASSETS					
Non-current assets					
Property, plant and equipment	7	105,373,140	81,431,334	580,877	124,853
Intangible assets	8	5,456,727	961,304	0	0
Investments in subsidiaries	9	0	0	19,430,000	17,384,953
		110,829,867	82,392,638	20,010,877	17,509,806
Current assets					
Inventories	10	7,415,118	7,617,059	0	0
Trade and other receivables	11	29,288,236	31,790,844	17,236,385	19,587,018
Current tax assets		381,204	742,119	0	12,744
Cash and bank balances	12	11,397,052	10,469,151	208,797	209,763
		48,481,610	50,619,173	17,445,182	19,809,525
TOTAL ASSETS		159,311,477	133,011,811	37,456,059	37,319,331

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016 (CONT'D)

		GROUP		COMPANY	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	13	30,870,005	30,870,005	30,870,005	30,870,005
Reserves	14	44,965,846	44,920,693	5,140,120	5,808,234
		75,835,851	75,790,698	36,010,125	36,678,239
Non-controlling interests		3,706,753	5,255,149	0	0
TOTAL EQUITY		79,542,604	81,045,847	36,010,125	36,678,239
LIABILITIES					
Non-current liabilities					
Borrowings	15	25,516,185	13,942,497	202,533	0
Deferred tax liabilities	19	732,086	894,805	11,100	95,600
		26,248,271	14,837,302	213,633	95,600
Current liabilities					
Trade and other payables	20	22,681,786	18,075,217	1,086,639	545,492
Derivative liability	21	521,930	108,302	0	0
Borrowings	15	30,193,252	18,945,143	119,562	0
Current tax liabilities		123,634	0	26,100	0
		53,520,602	37,128,662	1,232,301	545,492
TOTAL LIABILITIES		79,768,873	51,965,964	1,445,934	641,092
TOTAL EQUITY AND LIABILITIES		159,311,477	133,011,811	37,456,059	37,319,331

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 2016

		GROUP		COMPANY	
		2016	2015	2016	2015
	Note	RM	RM	RM	RM
Revenue	24	84,575,179	91,016,360	0	7,000,000
Cost of sales	25	(55,231,884)	(54,496,856)	0	0
Gross profit		29,343,295	36,519,504	0	7,000,000
Other operating income		2,093,269	4,341,040	985,321	60,390
Selling and distribution cost		(15,897,681)	(15,115,403)	0	0
Administrative and other expenses		(13,136,999)	(12,784,815)	(1,424,560)	(1,271,575)
Finance costs	26	(1,701,065)	(1,613,897)	(28,855)	0
Profit/(Loss) before tax	27	700,819	11,346,429	(468,094)	5,788,815
Tax expense	28	(614,062)	(685,400)	(200,020)	(95,600)
Profit/(Loss) for the financial year		86,757	10,661,029	(668,114)	5,693,215
Other comprehensive income, net of tax		0	0	0	0
Total comprehensive income/(loss)		86,757	10,661,029	(668,114)	5,693,215

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 2016 (CONT'D)

		GROUP		COMPANY	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
Profit/(Loss) for the financial year attributable to:					
Owners of the parent		45,153	8,800,204	(668,114)	5,693,215
Non-controlling interests		41,604	1,860,825	0	0
		86,757	10,661,029	(668,114)	5,693,215
Total comprehensive income/(loss) attributable to:					
Owners of the parent		45,153	8,800,204	(668,114)	5,693,215
Non-controlling interests		41,604	1,860,825	0	0
		86,757	10,661,029	(668,114)	5,693,215
Earnings per ordinary share attributable to equity holders of the Company (sen):					
Basic	29	0.01	3.47		
Diluted	29	0.01	3.47		

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Group	Note	[------ Non-distributable	------	------]	Distributable			
		Share capital RM	Share premium RM	Reorganisation reserve RM	Retained earnings RM	Total attributable to owners of the parent RM	Non-controlling interests RM	Total equity RM
Balance as at 1 January 2015		20,580,003	15,863,041	(5,185,000)	36,880,365	68,138,409	4,594,324	72,732,733
Profit for the financial year		0	0	0	8,800,204	8,800,204	1,860,825	10,661,029
Other comprehensive income, net of tax		0	0	0	0	0	0	0
Total comprehensive income		0	0	0	8,800,204	8,800,204	1,860,825	10,661,029
Transaction with owners								
Dividend paid	30	0	0	0	(1,029,000)	(1,029,000)	0	(1,029,000)
Dividend paid to non-controlling interest of a subsidiary		0	0	0	0	0	(1,200,000)	(1,200,000)
Ordinary shares issued pursuant to bonus issue	13	10,290,002	(10,290,002)	0	0	0	0	0
Share issue expenses		0	(118,915)	0	0	(118,915)	0	(118,915)
Total transaction with owners		10,290,002	(10,408,917)	0	(1,029,000)	(1,147,915)	(1,200,000)	(2,347,915)
Balance as at 31 December 2015		30,870,005	5,454,124	(5,185,000)	44,651,569	75,790,698	5,255,149	81,045,847

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)

	[---- Non-distributable	----	----]	Distributable			
Group	**Share capital RM**	**Share premium RM**	**Reorganisation reserve RM**	**Retained earnings RM**	**Total attributable to owners of the parent RM**	**Non-controlling interests RM**	**Total equity 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.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		[---------- Non-distributable -----------]		Distributable	
Company	**Note**	**Share capital RM**	**Share premium RM**	**(Accumulated losses)/ Retained earnings RM**	**Total Equity RM**
Balance as at 1 January 2015		20,580,003	15,863,041	(4,310,105)	32,132,939
Profit for the financial year		0	0	5,693,215	5,693,215
Other comprehensive income, net of tax		0	0	0	0
Total comprehensive income		0	0	5,693,215	5,693,215
Transaction with owners					
Dividend paid	30	0	0	(1,029,000)	(1,029,000)
Ordinary shares issued pursuant to bonus issue	13	10,290,002	(10,290,002)	0	0
Share issue expenses		0	(118,915)	0	(118,915)
Total transaction with owners		10,290,002	(10,408,917)	(1,029,000)	(1,147,915)
Balance as at 31 December 2015		30,870,005	5,454,124	354,110	36,678,239
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 loss, 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

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

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		GROUP		COMPANY	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(Loss) before tax		700,819	11,346,429	(468,094)	5,788,815
Adjustments for:					
Amortisation of intangible assets					
- development costs	8	312,785	342,771	0	0
- trademarks	8	236	236	0	0
Bad debts written off		57,673	84,600	0	0
Dividend income		0	0	0	(7,000,000)
Depreciation of property, plant and equipment	7	7,989,806	6,999,464	40,092	27,746
Fair value adjustment on derivative liability	21	413,628	(105,291)	0	0
Gain on disposal of property, plant and equipment		(73,539)	0	0	0
Loss on disposal of property, plant and equipment		0	578,280	0	0
Impairment losses on:					
- investments in subsidiaries	9	0	0	204,953	295,047
- trade receivables	11	110,713	483,357	0	0
Property, plant and equipment written off		9,141	0	0	0
Reversal of impairment losses on trade receivables	11	(483,357)	0	0	0
Unrealised gain on foreign exchange		(710,802)	(843,765)	0	0
Interest expense	26	1,701,065	1,613,897	28,855	0
Interest income		(78,821)	(160,848)	(985,321)	(60,390)
Listing expenses		0	88,266	0	88,266
Operating profit/(loss) before changes in working capital		9,949,347	20,427,396	(1,179,515)	(860,516)

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

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)

		GROUP		COMPANY	
	Note	2016 RM	2015 RM	2016 RM	2015 RM
CASH FLOWS FROM OPERATING ACTIVITIES (cont'd)					
Operating profit/(loss) before changes in working capital		9,949,347	20,427,396	(1,179,515)	(860,516)
Decrease/(Increase) in inventories		201,940	(1,727,451)	0	0
Decrease/(Increase) in trade and other receivables		3,528,377	(9,944,582)	2,350,635	(13,997,717)
Increase in trade and other payables		4,606,575	7,628,167	541,146	532,488
Cash generated from/(used in) operations		18,286,239	16,383,530	1,712,266	(14,325,745)
Tax (paid)/refunded		(292,232)	(773,914)	(245,676)	2,256
Net cash from/(used in) operating activities		17,994,007	15,609,616	1,466,590	(14,323,489)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of additional interest in a subsidiary	9	0	0	(2,250,000)	(1,249,996)
Interest received		78,821	160,848	985,321	60,390
Changes in deposits pledged with licensed banks		(189,791)	(149,006)	0	0
Development costs incurred	8	(4,808,444)	(159,504)	0	0
Dividend received from a subsidiary		0	0	0	7,000,000
Purchase of property, plant and equipment	7(a)	(23,283,393)	(25,875,006)	(126,116)	0
Proceeds from disposal of property, plant and equipment		1,655,909	1,244,532	0	250,074
Net cash (used in)/from investing activities		(26,546,898)	(24,778,136)	(1,390,795)	6,060,468

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

STATEMENTS OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONT'D)

	Note	GROUP 2016 RM	GROUP 2015 RM	COMPANY 2016 RM	COMPANY 2015 RM
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend paid to non-controlling interests of a subsidiary		(1,590,000)	(1,200,000)	0	0
Dividend paid to shareholders of the Company		0	(1,029,000)	0	(1,029,000)
Share issue expenses		0	(207,181)	0	(207,181)
Drawdown of term loans		11,654,830	6,505,817	0	0
Interest paid		(1,701,065)	(1,613,897)	(28,855)	0
Repayment of hire purchase payables		(4,676,015)	(2,639,323)	(47,906)	0
Drawdown of bankers' acceptances		4,929,000	6,350,000	0	0
Repayment of term loans		(2,288,969)	(7,551,188)	0	0
Net cash from/(used in) financing activities		6,327,781	(1,384,772)	(76,761)	(1,236,181)
Net decrease in cash and cash equivalents		(2,225,110)	(10,553,292)	(966)	(9,499,202)
Cash and cash equivalents at beginning of financial year		4,659,501	15,212,793	209,763	9,708,965
Cash and cash equivalents at end of financial year	12(a)	2,434,391	4,659,501	208,797	209,763

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

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 2016 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 20 April 2017.

2. PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in Note 9 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 as set out on pages 61 to 131 have been prepared in accordance with Malaysian Financial Reporting Standards (‘MFRSs’), International Financial Reporting Standards (‘IFRSs’) and the provisions of the Companies Act, 1965 in Malaysia. However, Note 37 to the financial statements as set out on page 132 has been prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants (‘MIA Guidance’) and the directive of Bursa Malaysia Securities Berhad.

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.

In relation to this, the Group has assessed its cash flows position for the next twelve (12) months to ensure that the Group has sufficient funds to meet its obligations as and when they fall due. In view of the foregoing, the Directors consider that it is appropriate to prepare the financial statements of the Group on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.1 Basis of accounting (Cont'd)

The preparation of financial statements in conformity with MFRSs and IFRSs 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 6 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.

4.2 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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.2 Basis of consolidation (Cont'd)

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.

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 an associate or a 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 Payment* 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 Business combinations (Cont'd)

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.

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 subsequent costs 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 a 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

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 annual depreciation period and rates are as follows:

Short term leasehold land	36 years
Long term leasehold land	82 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	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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.6 Intangible assets (Cont'd)

(b) Other intangible assets (Cont'd)

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 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.7 Leases and hire purchase (Cont'd)

(c) Leases of land and buildings (Cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(i) Financial assets at fair value through profit or loss (Cont'd)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

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 statements 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Financial instruments (Cont'd)

(b) Financial liabilities (Cont'd)

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.

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.

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Otherwise, they are charged to profit or loss.

Interim dividends to shareholders are recognised in equity in the period in which they are declared. Final dividends are recognised upon the approval of shareholders in a general meeting.

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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Loans and receivables

The Group collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments 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.

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 qualifying 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 costs 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 costs are recognised to 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.13 Income taxes (Cont'd)

(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.

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 in 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 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, and 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. Where the Group expects a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, the amount of a provision would be discounted to its present value at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.14 Provisions (Cont'd)

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits would be required to settle the obligation, the provision would be reversed.

Provisions are not recognised for future operating losses. If the Group has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

4.15 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 a contingent asset but discloses its existence where the 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.

4.16 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 incorporated in Malaysia 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.17 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.

4.18 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 risks and rewards of ownership of the goods have 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) Other Income

(i) Interest income

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

(ii) Rental income

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.19 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.

The Group reports separately information about each operating segment that meets any of the following quantitative thresholds:

(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.

(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.

4.20 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.20 Earnings per share (Cont'd)

(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.

4.21 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

5. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs

5.1 New MFRSs adopted during the financial year

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2016, the Group and the Company adopted the following Standards that are mandatory for annual financial periods beginning on or after 1 January 2016.

Title	**Effective Date**
MFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128 *Investment Entities: Applying the Consolidation Exception*	1 January 2016
Amendments to MFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*	1 January 2016
Amendments to MFRS 101 *Disclosure Initiative*	1 January 2016
Amendments to MFRS 116 and MFRS 138 *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to MFRS 116 and MFRS 141 Agriculture: *Bearer Plants*	1 January 2016
Amendments to MFRS 127 *Equity Method in Separate Financial Statements*	1 January 2016
Amendments to MFRSs *Annual Improvements to 2012 - 2014 Cycle*	1 January 2016

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

5.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2017

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 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
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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

5. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs (CONT'd)

5.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2017 (Cont'd)

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. (Cont'd)

Title	Effective Date
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
Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associates or Joint Venture*	Deferred

The Group is in the process of assessing the impact of implementing these Standards, since the effects would only be observable for future financial years.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the management of the Group and are based on historical experience 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

7. 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 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
Net book value														
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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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 2015	7,045,757	0	807,572	17,095,612	23,204	1,432,990	650,415	172,479	501,905	3,835,852	38,648,303	7,881,296	931,220	79,026,605
Additions	0	3,919,383	0	5,125,493	800	141,111	270,591	225,058	80,059	562	7,106,566	3,678,029	7,414,417	27,962,069
Disposals	0	0	0	0	0	0	(16,040)	(6,910)	(112,700)	0	(612,096)	(1,284,963)	(455,000)	(2,487,709)
Reclassification	10,992	0	260,355	0	0	0	0	0	0	0	437,660	245,175	(954,182)	0
At 31 December 2015	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
Accumulated depreciation														
At 1 January 2015	0	0	9,779	1,317,478	6,990	532,279	229,375	58,949	168,252	994,115	10,220,831	3,162,948	0	16,700,996
Current charge	0	45,363	9,779	451,830	3,266	152,562	90,103	29,818	21,081	378,663	4,001,677	1,815,322	0	6,999,464
Disposals	0	0	0	0	0	0	(2,916)	(3,908)	(31,541)	0	(137,538)	(488,994)	0	(664,897)
At 31 December 2015	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
Accumulated impairment														
At 1 January 2015/ 31 December 2015	0	0	0	0	0	0	0	0	0	0	34,068	0	0	34,068
Net book value														
At 31 December 2015	7,056,749	3,874,020	1,048,369	20,451,797	13,748	889,260	588,404	305,768	311,472	2,463,636	31,461,395	6,030,261	6,936,455	81,431,334

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	2016 RM	2015 RM
Motor vehicles/Signboard		
At cost		
At 1 January	156,067	447,415
Addition	496,116	0
Disposals	0	(291,348)
At 31 December	652,183	156,067
Accumulated depreciation		
At 1 January	31,214	44,742
Current charge	40,092	27,746
Disposal	0	(41,274)
At 31 December	71,306	31,214
Net book value	580,877	124,853

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

	Group	
	2016 RM	2015 RM
Purchase of property, plant and equipment	33,523,123	27,962,069
Financed by hire purchase arrangements	(10,239,730)	(2,087,063)
Cash payments on purchase of property, plant and equipment	23,283,393	25,875,006

	Company	
	2016 RM	2015 RM
Purchase of property, plant and equipment	496,116	0
Financed by hire purchase arrangements	(370,000)	0
Cash payments on purchase of property, plant and equipment	126,116	0

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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

	Group	
	2016	**2015**
	RM	**RM**
Motor vehicles	5,355,096	3,863,343
Machinery and equipment	13,382,748	10,252,940
	18,737,844	14,116,283

Details of the terms and conditions and information on financial risks of the hire purchase are disclosed in Notes 17 and 34 to the financial statements respectively.

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

	Group	
	2016	**2015**
	RM	**RM**
Freehold land	7,056,749	7,056,749
Short term leasehold land	3,765,148	3,874,020
Long term leasehold land	1,038,590	1,048,369
Factory building	24,472,197	20,451,797
Machinery and equipment	17,392,735	4,378,833
	53,725,419	36,809,768

8. INTANGIBLE ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

8. 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

Group	Balance as at 1.1.2015 RM	Additions RM	Amortisation charge for the financial year RM	Balance as at 31.12.2015 RM
Carrying amount				
Goodwill	42,981	0	0	42,981
Development costs	1,100,765	159,504	(342,771)	917,498
Trademarks	1,061	0	(236)	825
	1,144,807	159,504	(343,007)	961,304

	[------At 31.12.2015------] Cost RM	Accumulated amortisation RM	Carrying amount RM
Goodwill	42,981	0	42,981
Development costs	1,455,506	(538,008)	917,498
Trademarks	2,358	(1,533)	825
	1,500,845	(539,541)	961,304

9. INVESTMENTS IN SUBSIDIARIES

	Company 2016 RM	Company 2015 RM
At cost		
Unquoted shares	19,930,000	17,680,000
Less: Accumulated impairment losses	(500,000)	(295,047)
	19,430,000	17,384,953

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

9. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Effective interest in equity 2016 %	2015 %	Principal activities
Heng Huat Industries Holdings Sdn. Bhd. ("HHIH")	Malaysia	100%	100%	Investment holding
Fibre Star Marketing Sdn. Bhd. ("FS Marketing")	Malaysia	100%	100%	Ceased operation
Fibre Star (M) Sdn. Bhd. ("Fibre Star")	Malaysia	100%	100%	Manufacturing of mattresses and related products
HK Gua Musang Sdn. Bhd. ("HKGM")	Malaysia	100%	100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Power Sdn. Bhd. ("HKP")	Malaysia	100%	100%	Operator of power plant and boiler turbine system for electricity generation and steam production
<u>Subsidiaries of HHIH</u>				
HK Fibre Sdn. Bhd. ("HKF")	Malaysia	97%	97%	Manufacturing and trading of coconut biomass materials and value-added products
HK Mega Industries Sdn. Bhd. ("HKM")	Malaysia	100%	100%	Dormant
HK Kitaran Sdn. Bhd. ("HK Kitaran")	Malaysia	100%	100%	Manufacturing and trading of oil palm biomass materials and value-added products
HK Palm Fibre Manufacturer Sdn. Bhd. ("HK Palm")	Malaysia	50% *	50% *	Manufacturing and trading of oil palm biomass materials

* 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, 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

9. INVESTMENTS IN SUBSIDIARIES (CONT'D)

In the event of equality of votes at any of the general or board meeting, the Group is able to exercise a second or casting vote through the Group's Managing Director, H'ng Choon Seng by virtue of his appointment as the Chairman of the Board of Directors of HK Palm 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.

(a) Impairment losses on investments in subsidiaries amounting to RM204,953 (2015: RM295,047) relating to a subsidiary, Fibre Star Marketing Sdn. Bhd., has been recognised during the financial year due to the cessation of the subsidiary's business operations.

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

	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
2015			
NCI percentage of ownership interest and voting interest	50%		
Carrying amount of NCI (RM)	4,898,531	356,618	5,255,149
Profit allocated to NCI (RM)	1,795,613	65,212	1,860,825

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

9. INVESTMENTS IN SUBSIDIARIES (CONT'D)

(c) The summarised financial information before intra-group elimination of the subsidiary that has material NCI as at the end of each reporting is as follows:

	HK Palm	
	2016	**2015**
	RM	**RM**
Assets and liabilities		
Non-current assets	7,291,620	7,981,453
Current assets	6,426,592	6,104,310
Non-current liabilities	(333,858)	(291,869)
Current liabilities	(6,824,941)	(3,996,832)
Net assets	6,559,413	9,797,062

	HK Palm	
	2016	**2015**
	RM	**RM**
Results		
Revenue	10,025,659	14,460,047
(Loss)/profit for the financial year/Total comprehensive (loss)/income	(57,645)	3,591,226
Cash flows from operating activities	294,338	3,120,200
Cash flows from investing activities	(149,909)	(957,889)
Cash flows from financing activities	(1,711,942)	(2,665,908)
Net decrease in cash and cash equivalents	(1,567,513)	(503,597)
Dividend paid to NCI	1,590,000	1,200,000

(d) Subscription of additional shares in a wholly-owned subsidiary

During the financial year, the Company subscribed for an additional 2,250,000 ordinary shares of RM1.00 each in a 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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

10. INVENTORIES

	Group	
	2016 RM	2015 RM
At cost		
Raw materials	2,599,714	2,409,857
Work-in-progress	0	205,254
Packing materials	259,744	292,886
Finished goods	4,130,365	4,334,607
Spare parts	425,295	374,455
	7,415,118	7,617,059

During the financial year, inventories of the Group recognised as cost of sales amounted to RM25,984,112 (2015: RM33,165,931).

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Trade receivables	24,955,706	29,924,025	0	0
Less: Impairment losses	(110,713)	(483,357)	0	0
	24,844,993	29,440,668	0	0
Other receivables				
Amount owing by subsidiaries	0	0	17,227,850	19,579,017
Other receivables	1,248,887	292,993	67	48
Loans and receivables	26,093,880	29,733,661	17,227,917	19,579,065
Deposits and prepayments				
Deposits	370,059	250,742	1,000	1,100
Prepayments	2,824,297	1,806,441	7,468	6,853
	3,194,356	2,057,183	8,468	7,953
	29,288,236	31,790,844	17,236,385	19,587,018

(a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 30 to 120 days (2015: 30 to 120 days). They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(b) Amount owing by subsidiaries were unsecured, bears interest at 5.37% (2015: Nil) and repayable on demand in cash and cash equivalents.

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Ringgit Malaysia	10,465,054	10,855,297	17,227,917	19,579,065
United States Dollar	10,070,515	11,872,946	0	0
Chinese Renminbi	5,558,311	6,989,775	0	0
Other foreign currencies	0	15,643	0	0
	26,093,880	29,733,661	17,227,917	19,579,065

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

	Group	
	2016 RM	2015 RM
Neither past due nor impaired	20,864,040	15,243,611
Past due but not impaired		
1 to 30 days	1,929,338	2,578,007
31 to 60 days	848,297	3,019,557
61 to 90 days	616,453	2,795,858
91 to 120 days	43,057	1,884,446
More than 121 days	543,808	3,919,189
	3,980,953	14,197,057
Past due and impaired	110,713	483,357
	24,955,706	29,924,025

<u>Trade receivables that are neither past due nor impaired</u>

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.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(d) The ageing analysis of trade receivables of the Group are as follows: (Cont'd)

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to RM3,980,953 (2015: RM14,197,057) 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.

Trade receivables that are past due and impaired

Trade receivables of the Group that are past due and impaired at the end of the reporting period are as follows:

	Group Individually impaired	
	2016 RM	**2015 RM**
Trade receivables, gross	110,713	483,357
Less: Impairment loss	(110,713)	(483,357)
	0	0

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

	Group	
	2016 RM	**2015 RM**
At 1 January	483,357	0
Charge for the financial year (Note 27)	110,713	483,357
Reversal of impairment loss (Note 27)	(483,357)	0
At 31 December	110,713	483,357

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 34 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

12. CASH AND BANK BALANCES

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Cash and bank balances	8,846,902	8,108,792	208,797	209,763
Deposits with licensed banks	2,550,150	2,360,359	0	0
	11,397,052	10,469,151	208,797	209,763

(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	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Cash and bank balances	8,846,902	8,108,792	208,797	209,763
Deposits with licensed banks	2,550,150	2,360,359	0	0
	11,397,052	10,469,151	208,797	209,763
Less:				
Deposits pledged to licensed banks	(2,550,150)	(2,360,359)	0	0
Bank overdrafts included in borrowings (Note 15)	(6,412,511)	(3,449,291)	0	0
	2,434,391	4,659,501	208,797	209,763

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

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Ringgit Malaysia	10,014,515	7,737,938	208,797	209,763
United States Dollar	1,120,458	2,019,781	0	0
Chinese Renminbi	253,727	707,770	0	0
Other foreign currencies	8,352	3,662	0	0
	11,397,052	10,469,151	208,797	209,763

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

(d) Information on financial risks of cash and bank balances is disclosed in Note 34 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

13. SHARE CAPITAL

	Group and Company			
	2016		2015	
	Number of shares	RM	Number of shares	RM
Ordinary shares of RM0.10 each:				
Authorised	500,000,000	50,000,000	500,000,000	50,000,000
Issued and fully paid:				
Balance as at 1 January	308,700,045	30,870,005	205,800,030	20,580,003
Issued for cash pursuant to				
- bonus issue	0	0	102,900,015	10,290,002
Balance as at 31 December	308,700,045	30,870,005	308,700,045	30,870,005

(a) In the previous financial year, the Company increased its issued and paid-up share capital from RM20,580,003 to RM30,870,005 by way of a bonus issue of 102,900,015 new ordinary shares of RM0.10 each at par for cash on the basis of one (1) new ordinary share for every two (2) existing ordinary share for working capital purposes.

(b) The newly issued shares rank pari passu in all respects with the existing ordinary shares of the Company. There were no other issues of shares during the financial year.

(c) 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.

14. RESERVES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Non-distributable:				
Share premium	5,454,124	5,454,124	5,454,124	5,454,124
Reorganisation debit	(5,185,000)	(5,185,000)	0	0
	269,124	269,124	5,454,124	5,454,124
Distributable:				
Retained earnings/(Accumulated loss)	44,696,722	44,651,569	(314,004)	354,110
	44,965,846	44,920,693	5,140,120	5,808,234

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

14. RESERVES (CONT'D)

Reorganisation debit

The reorganisation debit 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 of RM1 each)	(14,280,000)
Reorganisation debit	(5,185,000)

15. BORROWINGS

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Current liabilities				
Term loans (Note 16)	3,906,709	1,972,890	0	0
Hire purchase creditors (Note 17)	4,827,032	3,404,962	119,562	0
Bankers' acceptances	15,047,000	10,118,000	0	0
Bank overdrafts (Note 18)	6,412,511	3,449,291	0	0
	30,193,252	18,945,143	119,562	0
Non-current liabilities				
Term loans (Note 16)	17,563,763	10,131,721	0	0
Hire purchase creditors (Note 17)	7,952,422	3,810,776	202,533	0
	25,516,185	13,942,497	202,533	0
Total borrowings				
Term loans (Note 16)	21,470,472	12,104,611	0	0
Hire purchase creditors (Note 17)	12,779,454	7,215,738	322,095	0
Bankers' acceptances	15,047,000	10,118,000	0	0
Bank overdrafts (Note 18)	6,412,511	3,449,291	0	0
	55,709,437	32,887,640	322,095	0

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

15. BORROWINGS (CONT'D)

(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 7(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 7(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 34 to the financial statements.

17. HIRE PURCHASE CREDITORS

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Minimum hire purchase payments				
- not later than one (1) year	5,516,942	3,867,386	133,332	0
- later than one (1) year and not later than five (5) years	8,691,402	3,860,365	211,083	0
Total minimum hire purchase payments	14,208,344	7,727,751	344,415	0
Less: Future interest charges	(1,428,890)	(512,013)	(22,320)	0
Present value of hire purchase payments	12,779,454	7,215,738	322,095	0
Repayable as follows:				
Current liabilities:				
- not later than one (1) year	4,827,032	3,404,962	119,562	0
Non-current liabilities:				
- later than one (1) year and not later than five (5) years	7,952,422	3,810,776	202,533	0
	12,779,454	7,215,738	322,095	0

Information on financial risks of hire purchase creditors is disclosed in Note 34 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

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 a subsidiary.

19. DEFERRED TAX LIABILITIES

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
At 1 January	894,805	682,395	95,600	0
Recognised in profit or loss (Note 28):				
- current year	4,420	203,635	2,627	88,100
- (over)/underprovision in prior years	(167,139)	8,775	(87,127)	7,500
At 31 December	732,086	894,805	11,100	95,600
Deferred tax liabilities				
Property, plant and equipment	732,086	894,805	11,100	95,600

(b) The amounts of temporary differences for which no deferred tax assets have been recognised in the statements of financial position are as follows:

	Group	
	2016 RM	2015 RM
Property, plant and equipment	43,212	41,693
Unused tax losses	1,650,408	248,086
	1,693,620	289,779
Subject to income tax:		
Deferred tax assets (before offsetting)		
Property, plant and equipment	43,695	42,948
Unused tax losses	1,650,408	248,086
	1,694,103	291,034
Offsetting	(483)	(1,255)
Deferred tax assets (after offsetting)	1,693,620	289,779
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	483	1,255
Offsetting	(483)	(1,255)
Deferred tax liabilities (after offsetting)	0	0

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

19. DEFERRED TAX LIABILITIES (CONT'D)

Deferred tax assets of certain subdidiaries within the Group have not been recognised in respect of these items as it is not probable that taxable profits of these subdidiaries 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	
	2016 RM	2015 RM	2016 RM	2015 RM
Trade payables				
Third parties	4,453,245	4,808,156	0	0
Amounts owing to a related party	48,350	195,792	0	0
	4,501,595	5,003,948	0	0
Other payables				
Amount owing to a related party	0	52,554	0	0
Amounts owing to subsidiaries	0	0	863,796	400,545
Other payables	12,583,408	10,075,140	89,599	104,947
Accruals	5,596,783	2,943,575	133,244	40,000
	18,180,191	13,071,269	1,086,639	545,492
	22,681,786	18,075,217	1,086,639	545,492

(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 (2015: 30 to 90 days) from the date of invoice.

(c) Amount owing to a related party in trade payables is subject to normal trade 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) Amounts owing to subsidiaries are unsecured, bears interest rate range from 4.47% to 5.44% (2015: Nil) and payable upon demand in cash and cash equivalents.

(f) Information on financial risks of trade and other payables is disclosed in Note 34 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

21. DERIVATIVE LIABILITY

	2016		2015	
Group	Contract amount RM	Liability RM	Contract amount RM	Liability RM
Forward currency contract	7,229,808	521,930	3,161,600	108,302

(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 eleven (11) 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 rate and the market rate.

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

	2016 RM	2015 RM
(Loss)/Gain on derivative liability	(413,628)	105,291

22. 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	
	2016 RM	2015 RM
Not later than one (1) year	395,150	494,000
Later than one (1) year and not later than five (5) years	160,600	336,000
	555,750	830,000

(b) Capital commitments

	Group	
	2016 RM	2015 RM
Capital expenditure in respect of purchase of property, plant and equipment:		
Approved but not contracted for	0	8,818,301
Contracted but not provided for	1,867,720	13,169,284
	1,867,720	21,987,585

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

23. CONTINGENT LIABILITIES

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Corporate guarantee given to banks for credit facilities granted to subsidiaries - unsecured	88,619,000	69,346,000	76,693,000	57,420,000

The Directors are of the view 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.

24. REVENUE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Sale of goods	84,575,179	91,016,360	0	0
Dividend income from a subsidiary	0	0	0	7,000,000
	84,575,179	91,016,360	0	7,000,000

25. COST OF SALES

	Group	
	2016 RM	2015 RM
Cost of goods sold	55,231,884	54,496,856

26. FINANCE COSTS

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Bank charges	41	82,707	0	0
Interest expenses on:				
- bank overdrafts	356,446	117,970	0	0
- term loans	550,472	688,132	0	0
- hire purchase	430,883	392,260	7,650	0
- bankers' acceptance	363,223	332,828	0	0
- inter-company loan interest	0	0	21,205	0
	1,701,065	1,613,897	28,855	0

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

27. PROFIT/(LOSS) BEFORE TAX

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit/(Loss) before tax is arrived at after charging:				
Amortisation of intangible assets				
- development costs (Note 8)	312,785	342,771	0	0
- trademarks (Note 8)	236	236	0	0
Auditors' remuneration				
- current year	109,490	90,050	18,390	22,950
- underprovision in prior years	13,800	949	0	949
Bad debts written off	57,673	84,600	0	0
Depreciation of property, plant and equipment (Note 7)	7,989,806	6,999,464	40,092	27,746
Directors’ remuneration paid to the Directors of the Company:				
Directors’ fees				
- paid by the Company	121,500	123,600	121,500	123,600
Other emoluments				
- paid by the Company	183,677	0	183,677	0
- paid by the subsidiaries	3,568,183	3,014,305	0	0
Fair value adjustment on derivative liability (Note 21)	413,628	0	0	0
Impairment losses on:				
- investments in subsidiaries (Note 9)	0	0	204,953	295,047
- trade receivables (Note 11)	110,713	483,357	0	0
Listing expenses	0	88,266	0	88,266
Loss on disposal of property, plant and equipment	0	578,280	0	0
Property, plant and equipment written off (Note 7)	9,141	0	0	0
Rental of factory	62,950	106,800	0	0
Rental of hostel	6,650	29,783	0	0
Rental of warehouse	315,600	343,500	0	0
Rental of land	192,000	110,000	0	0
Realised loss on foreign exchange	36,024	0	0	0

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

27. PROFIT/(LOSS) BEFORE TAX (CONT'D)

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
and crediting:				
Gain on disposal of property, plant and equipment	73,539	0	0	0
Fair value adjustment on derivative liability (Note 21)	0	105,291	0	0
Realised gain on foreign exchange	339,830	1,521,885	0	0
Unrealised gain on foreign exchange	710,802	843,765	0	0
Interest income received from:				
- fixed deposits	57,346	74,334	0	0
- bank balances	21,475	86,514	2,788	60,390
- amount owing by subsidiaries	0	0	982,533	0
Dividend income	0	0	0	7,000,000
Hostel rental received	184,689	48,102	0	0
Reversal of impairment losses on trade receivables (Note 11)	483,357	0	0	0

28. TAX EXPENSE

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Current tax expense based on profit for the financial year	462,025	478,782	69,600	0
Under/(Over)-provision in prior years	314,756	(5,792)	214,920	0
	776,781	472,990	284,520	0
Deferred tax (Note 19):				
Relating to origination and reversal of temporary differences	4,420	203,635	2,627	88,100
(Over)/Under-provision in prior years	(167,139)	8,775	(87,127)	7,500
	(162,719)	212,410	(84,500)	95,600
Total tax expense	614,062	685,400	200,020	95,600

(a) The Malaysian income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated taxable profits for the fiscal year.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

28. TAX EXPENSE (CONT'D)

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

	Group		Company	
	2016 RM	2015 RM	2016 RM	2015 RM
Profit/(Loss) before tax	700,819	11,346,429	(468,094)	5,788,815
Tax at Malaysian statutory tax rate of 24% (2015: 25%)	168,197	2,836,607	(112,343)	1,447,204
Tax effects in respect of:				
- expenses not deductible for tax purposes	1,436,226	759,730	184,570	255,196
- different tax rate for first RM500,000 of chargeable income	(400)	(25,000)	0	0
- income not subject to tax	(1,474,500)	(3,244,100)	0	(1,765,100)
Deferred tax assets not recognised during the financial year	336,922	355,180	0	150,800
Under/(Over)-provision of tax expense in prior years	314,756	(5,792)	214,920	0
(Over)/Under-provision of deferred tax in prior years	(167,139)	8,775	(87,127)	7,500
Tax expense for the financial year	614,062	685,400	200,020	95,600

Three (3) of the subsidiaries have been granted pioneer status by the Ministry of International Trade and Industry ("MITI") respectively as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

29. 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	
		2016	**2015**
Profit attributable to equity holders of parent	(RM)	45,153	8,800,204
Weighted average number of ordinary shares in issue	(units)	308,700,045	205,800,030
Effects of:			
- bonus issue		0	47,644,117
Adjusted weighted average number of ordinary applicable to basic earnings as per ordinary shares		308,700,045	253,444,147
Basic earnings per ordinary share:			
Profit for the financial year	(sen)	0.01	3.47

(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.

30. DIVIDEND

	2015	
The Group and the Company	**Gross dividend per share Sen**	**Amount of dividend RM**
Interim dividend paid	0.05	1,029,000

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

31. EMPLOYEE BENEFITS

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Wages, salaries and bonuses	19,509,048	19,180,073	483,765	127,750
Contribution to defined contribution plan	1,168,719	847,130	43,920	0
Social security contributions	103,384	68,169	3,693	0
Other benefits	105,334	77,337	461	9,328
	20,886,485	20,172,709	531,839	137,078

Included in the employee benefits of the Group and of the Company are Directors' remuneration amounting to RM3,873,360 (2015: RM3,137,905) and RM305,177 (2015: RM123,600) respectively.

32. 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 entities.

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	
	2016	**2015**	**2016**	**2015**
	RM	**RM**	**RM**	**RM**
Related companies:				
- Rental paid and payable	504,000	504,000	0	0
- Purchase of raw material	334,812	695,382	0	0
Advances to subsidiaries				
- Fibre Star (M) Sdn. Bhd.	0	0	0	1,809,000
- HK Gua Musang Sdn. Bhd.	0	0	9,084,000	3,350,757
- HK Power Sdn. Bhd.	0	0	1,920,000	1,249,998
- HK Kitaran Sdn. Bhd.	0	0	0	8,821,300
Advances from a subsidiary				
- HK Fibre Sdn. Bhd.	0	0	300,000	400,000

The related party transactions described above were carried out based on negotiated 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

32. RELATED PARTY DISCLOSURES (CONT'D)

(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	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Short term employee benefits	6,011,079	5,047,664	359,622	123,600
Contributions to defined contribution plan	722,911	603,949	43,920	0
Social security contribution	28,663	16,329	3,693	0
	6,762,653	5,667,942	407,235	123,600

33. 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 2016 and 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

33. FINANCIAL INSTRUMENTS (CONT'D)

(a) Capital management (Cont'd)

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.

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Borrowings (Note 15)	55,709,437	32,887,640	322,095	0
Trade and other payables (Note 20)	22,681,786	18,075,217	1,086,639	545,492
	78,391,223	50,962,857	1,408,734	545,492
Less:				
Cash and bank balances (Note 12)	(11,397,052)	(10,469,151)	(208,797)	(209,763)
Net debt	66,994,171	40,493,706	1,199,937	335,729
Total capital	75,835,851	75,790,698	36,010,125	36,678,239
Net debt	66,994,171	40,493,706	1,199,937	335,729
Equity	142,830,022	116,284,404	37,210,062	37,013,968
Gearing ratio (%)	**47**	**35**	**3**	**1**

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 complied with this requirement for the financial year ended 31 December 2016.

The Company has complied with these requirements for the financial year ended 31 December 2016.

(b) Financial instruments

	Loans and receivables RM
Group	
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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

33. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial instruments (Cont'd)

	Other financial liabilities RM	Fair value through profit or loss RM	Total RM
Group			
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 21)	0	521,930	521,930
	78,391,223	521,930	78,913,153

	Loans and receivables RM
Company	
31 December 2016	
Financial assets	
Trade and other receivables (excludes prepayments) (Note 11)	17,228,917
Cash and bank balances (Note 12)	208,797
	17,437,714

	Other financial liabilities RM
Financial liabilities	1,086,639
Trade and other payables (Note 20)	322,095
Borrowings (Note 15)	1,408,734

	Loans and receivables RM
Group	
31 December 2015	
Financial assets	
Trade and other receivables (excludes prepayments) (Note 11)	29,984,403
Cash and bank balances (Note 12)	10,469,151
	40,453,554

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

33. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial instruments (Cont'd)

	Other financial liabilities RM	Fair value through profit or loss RM	Total RM
Group			
Financial liabilities			
Trade and other payables (Note 20)	18,075,217	0	18,075,217
Borrowings (Note 15)	32,887,640	0	32,887,640
Derivative liability (Note 21)	0	108,302	108,302
	50,962,857	108,302	51,071,159

	Loans and receivables RM
Company	
31 December 2015	
Financial assets	
Trade and other receivables (excludes prepayments) (Note 11)	19,580,165
Cash and bank balances (Note 12)	209,763
	19,789,928

	Other financial liabilities RM
Financial liability	
Trade and other payables (Note 20)	545,492

(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 portion of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

33. 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)

(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 borrowings

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.

(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).

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

33. 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				Total fair value	Carrying amount
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	RM	RM
Group										
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
2015										
Financial liabilities										
Financial liabilities at fair value through profit or loss										
- Forward currency contract	0	108,302	0	108,302	0	0	0	0	108,302	108,302
Other financial liability										
- Hire purchase creditors	0	0	0	0	0	6,970,363	0	6,970,363	6,970,363	7,215,738
	0	108,302	0	108,302	0	6,970,363	0	6,970,363	7,078,665	7,324,040
Company										
2016										
Financial liabilities										
Other financial liability										
- Hire purchase creditors	0	0	0	0	0	314,397	0	314,397	314,397	322,095

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

34. 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 while the Company's primary exposure is through the amounts owing by subsidiaries. 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.

<u>Credit risk concentration profile</u>

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			
	2016		2015	
	RM	**% of total**	**RM**	**% of total**
By country				
Malaysia	9,326,880	37.37%	11,061,304	36.96%
People's Republic of China	15,628,826	62.63%	18,862,721	63.04%
	24,955,706	100.00%	29,924,025	100.00%

At the end of the reporting period, approximately 41% (2015: 26%) of the trade receivables of the Group were due from two (2015: one) major customers located in the People's Republic of China; and the amounts owing by subsidiaries contributed 100% (2015: 100%) of the total receivables of the Company.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(i) Credit risk (Cont'd)

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 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 but not impairment 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.

The table below summarises the maturity profile of the Group's and the Company's liabilities at the end of each reporting period based on contractual undiscounted repayment obligations.

Group	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
As at 31 December 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
Derivative liability (Note 21)	521,930	0	0	521,930
Total undiscounted financial liabilities	55,301,758	25,360,882	5,386,842	86,049,482
As at 31 December 2015				
Financial liabilities				
Trade and other payables (Note 20)	18,075,217	0	0	18,075,217
Borrowings (Note 15)	19,808,553	12,821,156	3,112,773	35,742,482
Derivative liability (Note 21)	108,302	0	0	108,302
Total undiscounted financial liabilities	37,992,072	12,821,156	3,112,773	53,926,001

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

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

Company	On demand or within one year RM	One to five years RM	Over five years RM	Total RM
As at 31 December 2016				
Financial liabilities				
Trade and other payables (Note 20)	1,086,639	0	0	1,086,639
Borrowings (Note 15)	133,332	211,083	0	344,415
Total undiscounted financial liabilities	1,219,971	211,083	0	1,431,054
As at 31 December 2015				
Financial liability				
Trade and other payables (Note 20)	545,492	0	0	545,492
Total undiscounted financial liability	545,492	0	0	545,492

(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.

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	
	2016 RM	2015 RM
Profit after tax		
Increase 10 basis points (2015: 10 basis point)	(40,401)	(22,895)
Decrease 10 basis points (2015: 10 basis point)	40,401	22,895

	Company	
	2016 RM	2015 RM
Profit after tax		
Increase 10 basis points (2015: 10 basis point)	12,192	0
Decrease 10 basis points (2015: 10 basis point)	(12,192)	0

34. 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 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	More than 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 and lease 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									
At 31 December 2016									
Fixed rates									
Hire purchase and lease 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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

34. 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 1 year RM	1 - 2 years RM	2 - 3 years RM	3 - 4 years RM	4 - 5 years RM	More than 5 years RM	Total RM
At 31 December 2015									
Fixed rates									
Deposits with licensed banks	12	3.18	2,360,359	0	0	0	0	0	2,360,359
Hire purchase and lease creditors	17	6.38	3,404,962	2,727,113	930,381	153,282	0	0	7,215,738
Floating rates									
Bank overdrafts	18	8.19	3,449,291	0	0	0	0	0	3,449,291
Bankers' acceptance	15	5.05	10,118,000	0	0	0	0	0	10,118,000
Term loans	16	6.85	1,972,890	4,371,070	1,543,092	984,356	1,017,728	2,215,475	12,104,611
Company									
At 31 December 2015									
Fixed rates									
Hire purchase and lease creditors	17	NIL	0	0	0	0	0	0	0
Floating rates									
Amount owing by subsidiaries	11	NIL	19,579,017	0	0	0	0	0	19,579,017
Amount owing to subsidiaries	20	NIL	400,545	0	0	0	0	0	400,545

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

34. 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 customers. 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	
		2016	**2015**
		RM	**RM**
Profit after tax			
USD/RM	- strengthen by 5% (2015: 5%)	425,257	520,977
	- weaken by 5% (2015: 5%)	(425,257)	(520,977)
RMB/RM	- strengthen by 5% (2015: 5%)	220,857	288,658
	- weaken by 5% (2015: 5%)	(220,857)	(288,658)
Others/RM	- strengthen by 5% (2015: 5%)	317	724
	- weaken by 5% (2015: 5%)	(317)	(724)

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 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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

34. 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 2015 are as follows:

Contract	Expiry dates	Contract amounts USD	RM equivalent
Contracts used to hedge trade receivables	January 2016	50,000	216,250
	July 2016	200,000	788,000
	October 2016	100,000	431,865
	November 2016	100,000	428,710
	December 2016	300,000	1,296,775
			3,161,600

35. 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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

35. 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:

	2016 RM
Property plant and equipment	33,523,123

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2016 (CONT'D)

35. OPERATING SEGMENTS (CONT'D)

2015

	Biomass materials and related products RM	Mattresses and related products RM	Investment holdings and others RM	Total RM
Revenue				
Total revenue	69,440,275	31,323,318	15,500,000	116,263,593
Inter-segment revenue	(4,010,590)	(5,736,643)	(15,500,000)	(25,247,233)
Revenue from external customers	65,429,685	25,586,675	0	91,016,360
Interest income	69,129	29,892	61,827	160,848
Finance costs	(1,335,449)	(209,820)	(68,628)	(1,613,897)
Net finance expense	(1,266,320)	(179,928)	(6,801)	(1,453,049)
Depreciation	6,375,898	497,827	125,739	6,999,464
Amortisation	342,771	236	0	343,007
Segment profit/(loss) before tax	**13,006,731**	**(49,546)**	**13,228,506**	**26,185,691**
Additions to non-current assets other than financial instruments and intangible assets	12,036,098	2,094,695	13,831,276	27,962,069
Segment assets	**99,480,785**	**17,542,864**	**15,246,043**	**132,269,692**
Segment liabilities	**34,050,320**	**7,219,997**	**9,800,842**	**51,071,159**

* Additions to non-current assets consist of:

	2015 RM
Property plant and equipment	27,962,069

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

35. 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:

	2016 RM	2015 RM
Revenue		
Total revenue for reportable segments	88,438,383	116,263,593
Elimination of inter-segmental revenues	(3,863,204)	(25,247,233)
Revenue of the Group per consolidated statement of profit or loss and other comprehensive income	84,575,179	91,016,360
Profit for the financial year		
Profit before tax for reportable segments	2,357,855	26,185,691
Elimination of inter-segment profits	(1,657,036)	(14,839,262)
Profit before tax	700,819	11,346,429
Tax expense	(614,062)	(685,400)
Profit for the financial year of the Group per consolidated statement of profit or loss and other comprehensive income	86,757	10,661,029
Assets		
Total assets for reportable segments	158,930,273	132,269,692
Tax assets	381,204	742,119
Assets of the Group per consolidated statement of financial position	159,311,477	133,011,811

	2016 RM	2015 RM
Liabilities		
Total liabilities for reportable segments	78,913,153	51,071,159
Tax liabilities	855,720	894,805
Liabilities of the Group per consolidated statement of financial position	79,768,873	51,965,964

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

35. 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.

	2016 RM	2015 RM
Revenue from external customers		
Malaysia	39,261,855	42,475,092
China	44,946,023	48,329,457
Singapore & other	367,301	211,811
	84,575,179	91,016,360

(c) Major customer

Revenue from a customer in the biomass materials and related products segment accounted for approximately 21.04% (2015: 10.39%) of the Group's total revenue.

36. COMPANIES ACT 2016

The Companies Act, 2016 (New Act) was enacted to replace the Companies Act, 1965 and was passed by Parliament on 4 April 2016. The New Act was subsequently gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the effective date of the New Act, except for Section 241 and Division 8 of Part III of the New Act, to be 31 January 2017.

Amongst the key changes introduced in the New Act, which will affect the financial statements of the Group and of the Company, are the removal of the authorised share capital, introduction of no par value shares in place of par or nominal value shares, and the treatment of share premium and capital redemption reserves.

The adoption of the New Act does not have any financial impact on the Group and the Company for the financial year ended 31 December 2016 as any accounting implications will only be applied prospectively, if applicable, and the effect of adoption mainly will be on the disclosures to the annual report and financial statements of the Group and of the Company for the financial year ending 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016 (CONT'D)

37. SUPPLEMENTARY INFORMATION ON REALISED AND UNREALISED LOSSES

The retained earnings/(accumulated loss) as at the end of the reporting period may be analysed as follows:

	Group		Company	
	2016 RM	**2015 RM**	**2016 RM**	**2015 RM**
Total retained earnings/(accumulated loss) of Heng Huat Resources Group Berhad and its subsidiaries				
- Realised	55,160,594	54,837,642	(314,004)	354,110
- Unrealised	(1,918,500)	(159,343)	0	0
	53,242,094	54,678,299	(314,004)	354,110
Less: Consolidation adjustments	(8,545,372)	(10,026,730)	0	0
Total retained earnings/ (accumulated loss)	44,696,722	44,651,569	(314,004)	354,110

ANALYSIS OF SHAREHOLDINGS

AS AT 31 MARCH 2017

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	73	3.01	3,434	0.00
100	-	1,000	117	4.83	59,330	0.02
1,001	-	10,000	909	37.53	5,921,350	1.92
10,001	-	100,000	1,134	46.82	38,779,850	12.56
100,001	-	15,435,001 (*)	184	7.60	117,637,482	38.11
15,435,002	-	AND ABOVE (**)	5	0.21	146,298,599	47.39
		TOTAL	**2,422**	**100**	**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 31 MARCH 2017

No.	Name	NO. OF ISSUED SHARES	%
1	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR H'NG CHOON SENG	35,000,000	11.34
2	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR H'NG CHOON SENG	28,000,000	9.07
3	H'NG CHOON SENG	20,552,421	6.66
4	KEE SWEE LAI	19,247,499	6.24
5	KEE SWEE LAI	18,577,305	6.02
6	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KEE SWEE LAI	17,830,000	5.78
7	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR H'NG CHOON SENG	13,700,000	4.44
8	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR H'NG CHOON SENG	12,215,082	3.96
9	H'NG CHOON SENG	7,091,374	2.30
10	TA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KEE SWEE LAI	6,970,000	2.26

ANALYSIS OF SHAREHOLDINGS

AS AT 31 MARCH 2017 (CONT'D)

LIST OF 30 LARGEST SHAREHOLDERS AS AT 31 MARCH 2017 (CONT'D)

No.	Name	NO. OF ISSUED SHARES	%
11	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEH CHAI LUANG (6000327)	6,850,000	2.22
12	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KHOR MOOI KIM (6000331)	6,500,000	2.11
13	HENG HUAT MANUFACTURER SDN BHD	6,187,500	2.00
14	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM GHIM CHAI	3,000,000	0.97
15	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR LIM KA KIAN (PB)	2,330,000	0.75
16	CHOO AH NGO	2,000,000	0.65
17	MERCSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SIOW WONG YEN @ SIOW KWANG HWA	2,000,000	0.65
18	KHOR TEIK BOON	1,719,000	0.56
19	KENANGA NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR GOH YOK TEK (022)	1,700,000	0.55
20	CHEONG KOK CHOY	1,600,000	0.52
21	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEOH WOOI HANG	1,565,300	0.51
22	UOB KAY HIAN NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)	1,245,500	0.40
23	NG KENG HUAT	1,130,000	0.37
24	H’NG LEE MOOI	1,009,500	0.33
25	GOH KAY CHUAN	1,000,000	0.32
26	KEE SWEE BOON	900,000	0.29
27	ONG CHIN CHAI	840,000	0.27
28	CIMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LOH BOON HONG (SENTUL RAYA-CL)	838,000	0.27
29	KHOR SOO KHOON	830,000	0.27
30	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR OON MING CHEAH (E-TAI/TIN)	807,900	0.26
	TOTAL	**223,236,381**	**72.34**

ANALYSIS OF SHAREHOLDINGS

AS AT 31 MARCH 2017 (CONT'D)

DIRECTORS' SHAREHOLDINGS
AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 31 MARCH 2017

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**% of Shares**	**No. of Shares**	**% of Shares**
H'ng Choon Seng	116,558,877	37.76	6,187,500*	2.00
Kee Swee Lai	62,624,804	20.29	-	-
Khor Mooi Kim	6,768,570	2.19	-	-
Teh Chai Luang	7,404,780	2.40	-	-
Khor Teik Boon	1,719,000	0.56	1,009,500^	0.33
Lim Ghim Chai	3,000,000	0.97	-	-

* *Deemed interest by virtue of his substantial interests in Heng Huat Manufacturer Sdn. Bhd. pursuant to Section 8 of the Companies Act, 2016 in Malaysia.*

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

SUBSTANTIAL SHAREHOLDERS
AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 31 MARCH 2017

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**% of Shares**	**No. of Shares**	**% of Shares**
H'ng Choon Seng	116,558,877	37.76	6,187,500*	2.00
Kee Swee Lai	62,624,804	20.29		
	179,183,681	58.05	6,187,500	2.00

* *Deemed interest by virtue of his substantial interests in Heng Huat Manufacturer Sdn. Bhd. pursuant to Section 8 of the Companies Act, 2016 in Malaysia.*

LIST OF PROPERTIES

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure/ Approximate age of Building (Years)	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2016 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/ 7 years	239,580/ 78,000	9,300	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/ 5 years	178,160/ 80,000	8,286	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/ 4 years	69,696/ 30,000	2,860	11.05.2012

LIST OF PROPERTIES (CONT'D)

Registered/ Beneficial Owner	Title/Address	Description/ Existing Use	Tenure/ Approximate age of Building (Years)	Land Area/ Built-up Area (sq ft)	Audited NBV as at 31 December 2016 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/ 10 years	89,690/ 40,483	1,303	24.04.2012
HK Gua Musang	Title: PN 1828, Lot 551 Bandar Gua Musang Jajahan Gua Musang Kelantan Darul Naim ("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/ 1 year	478,574/ 152,460	14,076	19.08.2015

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Sixth 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 Tuesday, 13 June 2017 at 11.30 a.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 2016 together with the Reports of the Directors and Auditors thereon.

2. To approve the payment of Directors' fees for the financial year ended 31 December 2016. **Ordinary Resolution 1**

3. To approve the payment of Directors' remuneration (excluding Directors' fees) of not exceeding RM10,000 from 1 January 2017 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 Constitution and who, being eligible, offer themselves for re-election:-

(i) Ms. Teh Chai Luang **Ordinary Resolution 3**
(ii) Mr. Khor Teik Boon **Ordinary Resolution 4**
(iii) Dato' Juzilman Bin Basir **Ordinary Resolution 5**

5. To re-elect Mr. Cheah Swi Chun who retires pursuant to Article 88 of the Company's Constitution and who, being eligible, offer himself for re-election. **Ordinary Resolution 6**

6. To re-appoint Messrs. BDO as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration. **Ordinary Resolution 7**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions, with or without modification, as Ordinary Resolutions :

7. 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 Constitution 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 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 8**

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

8. 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 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 28 April 2017, 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 meeting, the authority is renewed;

(b) the expiration of the period within which the next AGM after that date it is required 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 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 9**

9. To transact any other business of which due notice shall have been given in accordance with the Company's Constitution and the Companies Act, 2016.

By Order of the Board

OOI YOONG YOONG (MAICSA 7020753)
Secretary
Penang
28 April 2017

NOTICE OF ANNUAL GENERAL MEETING (CONT'D)

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. A proxy need not be an advocate, an approved company auditor or a person approved by the Registrar. 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 6 June 2017 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 January 2017 until the next AGM of the Company.**

   The Directors' remuneration (excluding Directors' fees) 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 for the current financial year ending 31 December 2017 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 8 - Authority under Sections 75 and 76 of the Companies Act, 2016 for the Directors to issue shares**

   The proposed Ordinary Resolution 8, 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 Sixth 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 9 - 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 28 April 2017 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.

HENG HUAT RESOURCES GROUP BERHAD
(Company No. 969678-D) (Incorporated in Malaysia)

CDS account no. of authorised nominee

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____________________as my/our proxy to vote for me/us and on my/our behalf at the Sixth Annual General Meeting (6th AGM) of the Company, to 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 Tuesday, 13 June 2017 at 11.30 a.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 ____________________as my/our proxy to vote for me/us and on my/our behalf at the 6th AGM and at every any adjournment thereof.

The proportions of my/our holding to be represented by my/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 for the financial year ended 31 December 2016.				
2.	To approve the payment of Directors' remuneration (excluding Directors' fees) of not exceeding RM10,000 from 1 January 2017 until the next AGM of the Company.				
3.	To re-elect Ms. Teh Chai Luang as Director of the Company				
4.	To re-elect Mr. Khor Teik Boon as Director of the Company				
5.	To re-elect Dato' Juzilman Bin Basir as Director of the Company				
6.	To re-elect Mr. Cheah Swi Chun as Director of the Company				
7.	To re-appoint Messrs. BDO as Auditors of the Company and to authorize the Directors to fix their remuneration.				
8.	Authority under Sections 75 and 76 of the Companies Act, 2016 for the Directors to issue shares				
9.	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__________

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. A proxy need not be an advocate, an approved company auditor or a person approved by the Registrar. 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.

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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)
(A MEMBER OF HENG HUAT GROUP)

Lot 2945 (Plot A2), Jalan Sungai Baong,
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