NEXT LEVEL OF GROWTH

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Heng Huat Resources Group Berhad (969678-D)

ANNUAL REPORT 2015

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 under the Companies Act, 1965 on 25 November 2011 as a private limited company under the name of Heng Huat Resources Group Sdn Bhd. We were subsequently converted into a public limited company and assumed our present name on 18 June 2012. We were listed on the ACE Market of Bursa Malaysia Securities Berhad on 25 July 2014.

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

Biomass Materials Manufacturing

Our Group's biomass materials manufacturing operations are carried out by our subsidiaries, namely, HK Fibre Sdn Bhd, HK Kitaran Sdn Bhd 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

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

Ng Boon Kang
Independent Non-Executive Director

Lo Liang Kheng
Independent Non-Executive Director

AUDIT COMMITTEE

Chairman
Ng Boon Kang

Members
Lo Liang Kheng
Dato' Juzilman Bin Basir

NOMINATION COMMITTEE

Chairman
Dato' Juzilman Bin Basir

Members
Ng Boon Kang
Lo Liang Kheng

REMUNERATION COMMITTEE

Chairman
Lo Liang Kheng

Members
Dato' Juzilman Bin Basir
Ng Boon Kang
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)
8th Floor, Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel : (603) 2164 6689
Fax : (603) 2164 6690

CORPORATE FINANCE ADVISER

WYNCORP Advisory Sdn Bhd (632322-H)
Suite 50-5-3A, Level 5
Wisma UOA Damansara
50, Jalan Dungun, Damansara Heights
50490 Kuala Lumpur
Tel : (603) 2096 2286/2289
Fax : (603) 2096 2281

STOCK EXCHANGE LISTING

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

CORPORATE STRUCTURE

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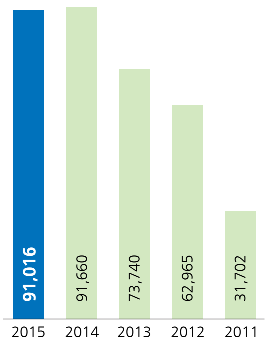
Heng Huat Resources Group Berhad
(969678-D)

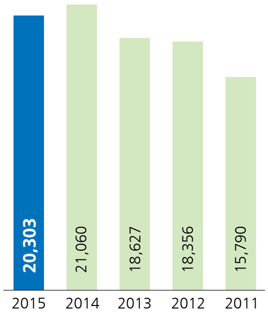
- 100% Fibre Star (M) Sdn Bhd (973296-M)
- 100% Fibre Star Marketing Sdn Bhd (973299-X)
- 100% Heng Huat Industries Holdings Sdn Bhd (779222-P)
  - 97% HK Fibre Sdn Bhd (765548-H)
  - 100% HK Kitaran Sdn Bhd (881898-X)
  - 100% HK Mega Industries Sdn Bhd (776763-X)
  - 50% HK Palm Fibre Manufacturer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

FINANCIAL HIGHLIGHTS

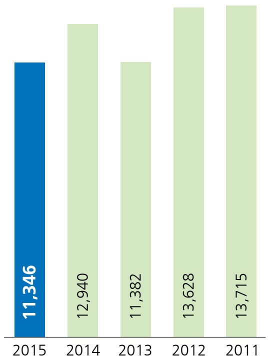
REVENUE
(RM'000)



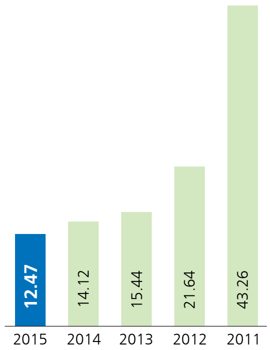
EBITDA
(RM'000)



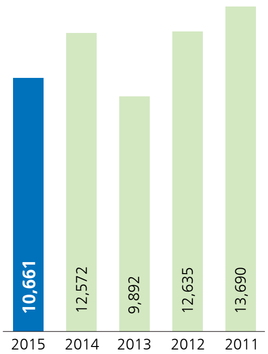
PBT
(RM'000)



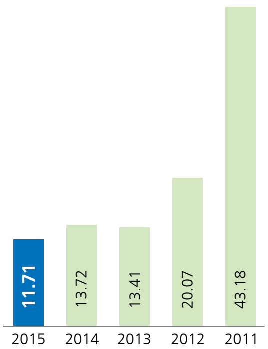
PBT MARGIN
(%)



PAT
(RM'000)



PAT MARGIN
(%)



	Financial Year Ended 31 December				
	Pro Forma	Audited			
	2011 RM	2012 RM	2013 RM	2014 RM	2015 RM
Revenue	31,702	62,965	73,740	91,660	91,016
Gross Profit	17,565	30,576	31,978	39,300	36,520
Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)	15,790	18,356	18,627	21,060	20,303
Profit Before Taxation (PBT)	13,715	13,628	11,382	12,940	11,346
PBT Margin	43.26	21.64	15.44	14.12	12.47
Profit After Taxation (PAT)	13,690	12,635	9,892	12,572	10,661
PAT Margin	43.18	20.07	13.41	13.72	11.71
Gross Earnings Per Share (Gross EPS)	8.61[(1)]	8.55[(1)]	7.14[(1)]	7.20[(4)]	4.48[(4)]
Net Earnings Per Share (Net EPS)	6.61[(2)]	7.64[(2)]	6.11[(2)]	5.72[(4)]	3.47[(4)]
Diluted Net EPS	5.12[(3)]	5.91[(3)]	6.11[(4)]	5.72[(4)]	3.47[(4)]

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.*

Our valued shareholders,

On behalf of the Board of Directors ("Board") of Heng Huat Resources Group Berhad ("Heng Huat"), we are pleased to present the Annual Report and Audited Financial Statements of Heng Huat and its subsidiaries ("the Group") for the financial year ended 31 December 2015.

INDUSTRY OVERVIEW

The year 2015 was certainly a challenging year, with the Malaysian economy shadowed with turbulence and uncertainties. The unprecedented drop in global oil prices, depreciation of the Ringgit Malaysia, implementation of the Goods and Services Tax (GST) and rising living costs have taken their toll on the business environment and consumer sentiment in the domestic market. On the global level, growth remained sluggish with China affected by economic uncertainties and moderation in growth.

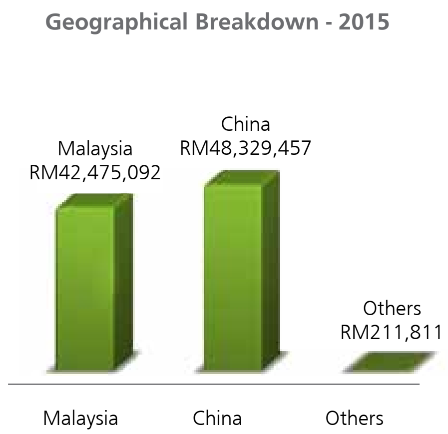
During the financial year under review, the Group experienced increased competition in the supply of oil palm EFB fibre to the China market. This was due to additional small-scale manufacturers venturing into the industry as the market demand for natural, green and environmentally-friendly products continued to grow. Further, China mattress manufacturers have been actively seeking cheaper raw material alternatives to replace coconut fibre as part of cost-saving efforts amid the challenging economic environment.

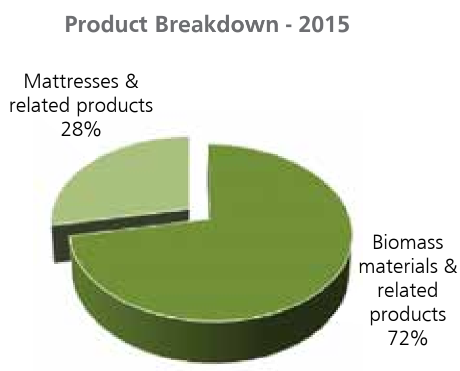
The demand for oil palm EFB fibre from China started off strong during the first half of 2015. The China market was, however, adversely impacted by the sudden stock market turmoil and devaluation of Renminbi during the third quarter of 2015. This has caused the China mattress manufacturers to ease back on ordering raw materials temporarily. The order volume from China for oil palm EFB fibre gradually recovered during the last quarter of 2015.

On the domestic front, market demand for mattresses and bedding accessories remained stable during the financial year under review. However, consumers were more prudent on spending and furniture retailers were on the quest for value-for-money products to stay competitive amid the challenging economic conditions. This has resulted in intensifying competition within the furniture industry. Nevertheless, local manufacturers with own-brand products that source raw materials locally (including Heng Huat) are in a better position given the rising import costs following the depreciation of Ringgit Malaysia and lower consumption tax following the implementation of GST at 6% (prior to that, sales tax was imposed at 10%).

Asia Honesty Product Awards 2015

Revenue Mix – Financial Year 2015





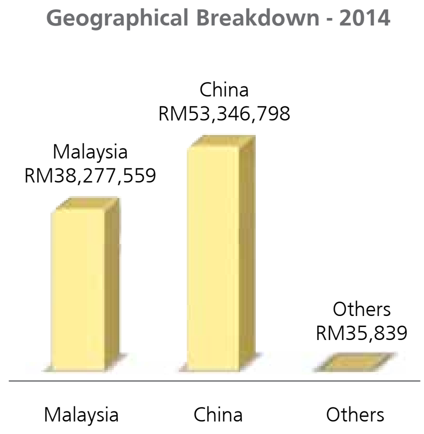
PERFORMANCE OVERVIEW

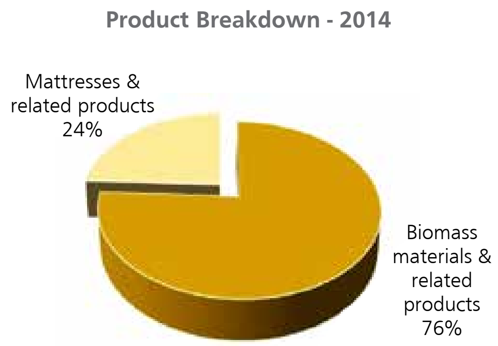
	2015 RM'000	2014 RM'000
Revenue		
• Biomass materials & related products	65,430	69,545
• Mattresses & related products	25,586	22,115
Total Revenue	**91,016**	**91,660**
Gross Profit ("GP")	36,520	39,300
GP Margin	40.1%	42.9%
Profit after Taxation ("PAT")	10,661	12,572
PAT Margin	11.7%	13.7%

Despite the challenging market and industry conditions during the financial year under review, our Group continued to report commendable financial performance. Revenue and gross profit stood at approximately RM91.02 million (2014: RM91.66 million) and RM36.52 million (2014: RM39.30 million) respectively.

The slight moderation of revenue during the financial year under review was primarily due to lower sales of oil palm EFB fibre to the China market. This was the result of two factors: first, the market sentiment within China's operating environment which was weighed down by the economic uncertainties during the second half of 2015, and second, the Group's initiative to mitigate credit risk exposure by reducing sales to customers who have an outstanding balance that exceeds their credit period.

Revenue Mix – Financial Year 2014





Hiking to Cherok To'Kun Hill, Bukit Mertajam

PERFORMANCE OVERVIEW (CONT'D)

The decrease in sales of oil palm EFB fibre was partially mitigated by improved revenue from mattresses and related products during the financial year under review. This was possible due to the active marketing efforts by the Group to enhance its market share within the domestic market.

Our Group's profit for the financial year under review remained commendable at RM10.66 million, although lower by approximately 15.19% or RM1.91 million as compared to RM12.57 million in the preceding year as a result of the moderation in revenue and gross profit as mentioned above.

PROSPECT

Our Group remain cautiously optimistic that the orders for oil palm EFB fibre from China will continue to be stable backed by the rising population in China and increasing demand for raw material alternatives that are cheaper, natural and environmentally-friendly.

Upon completion of our new production factory at Gua Musang, our Group will have an increased capacity that enables us to tap into new customer segments as well as expand our market coverage in China. The new production factory is currently under construction and is targeted to be completed by the fourth quarter of 2016.

Barring any unforeseen circumstances and adverse external economic factors, our Group's financial performance for the financial year ending 31 December 2016 is expected to remain promising.

APPRECIATION

On behalf of the Board and Heng Huat, I wish to extend our deepest appreciation to our treasured management team and employees for their dedication in driving the Group forward. We would also like to express our gratitude to our valued customers, business associates and partners, bankers and regulators for their continued support to Heng Huat.

We would also like to express our appreciation to our Sponsor, Corporate Finance Adviser, Company Secretary, and Internal and External Auditors for all the advice and guidance extended to the Board.

Not to be forgotten, my deepest gratitude to all our shareholders for your confidence in Heng Huat. Your trust is our primary driving force in achieving future excellence!

Thank you.

Dato' Juzilman Bin Basir
Independent Non-Executive Chairman

Blood Donation Campaign

DATO' JUZILMAN BIN BASIR
Independent Non-Executive Chairman

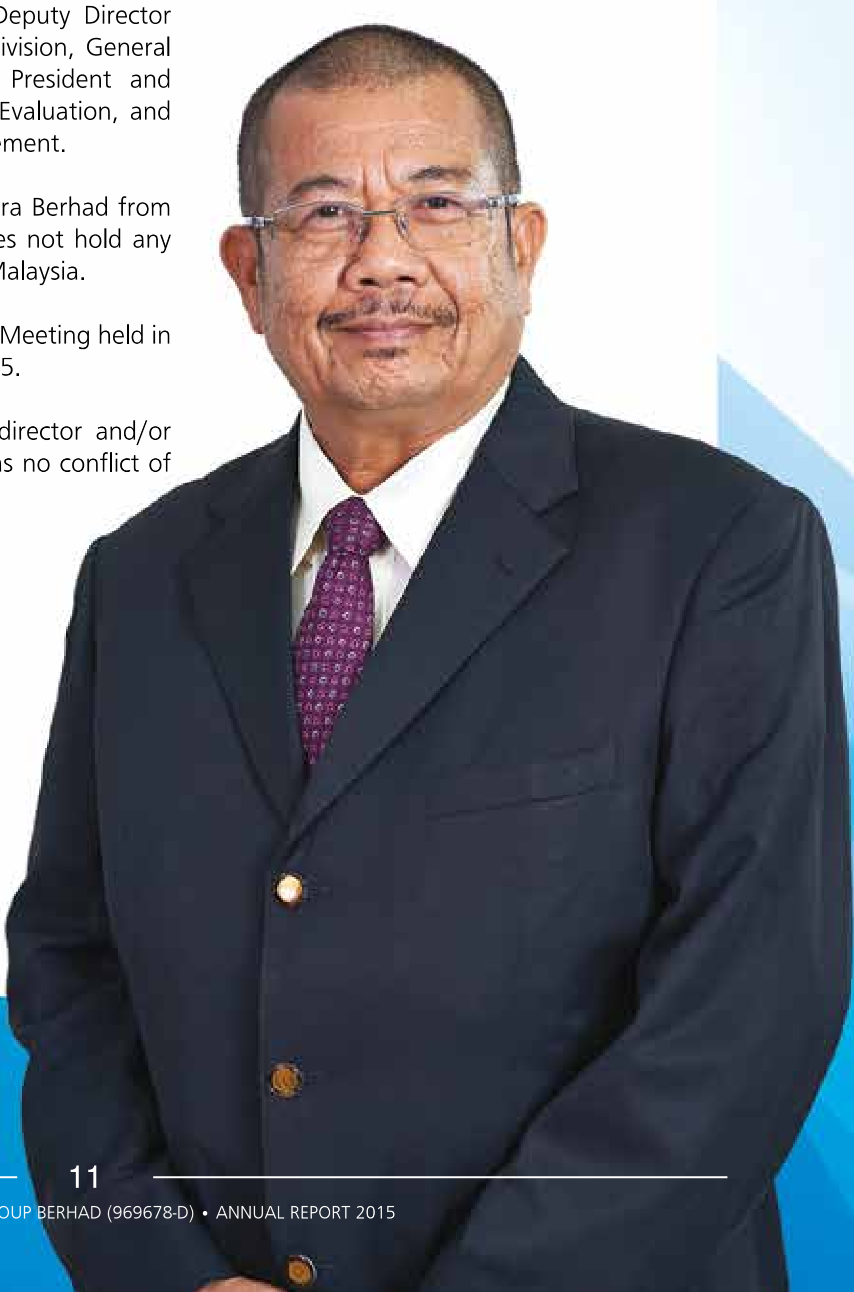
Malaysian, aged 59, Dato' Juzilman Bin Basir is our Independent Non-Executive Chairman and was appointed to our Board on 25 March 2014. He is presently the Chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee of the Company.

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 five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.



H'NG CHOON SENG
Managing Director

Malaysian, aged 49, 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 and has since accumulated 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 ("HK Fibre"), together with Kee Swee Lai to manufacture coconut fibre which paved the way for his involvement in the biomass industry. Subsequently, HK Palm Fibre Manufacturer Sdn Bhd ("HK Palm Fibre") and HK Kitaran Sdn Bhd ("HK Kitaran") 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 five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.

KEE SWEE LAI
Deputy Managing Director

Malaysian, aged 53, Kee Swee Lai was appointed to our Board as Director on 25 November 2011 and on 28 May 2012, he was designated as our Deputy Managing Director. He graduated with a Bachelor of Science in Microbiology from Universiti Kebangsaan Malaysia in 1987 and has since accumulated twenty-ninth (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 in 2007 followed by HK Palm Fibre and HK Kitaran in 2009. He does not hold any directorship in other public companies in Malaysia.

He attended all five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.

LIM GHIM CHAI
Executive Director

Malaysian, aged 41, 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. He appointed as Independent Non-Executive Director of Atta Global Group Berhad (formerly known as SMPC Corporation Bhd on 29 June 2015 and CAB Cakaran Corporation Berhad on 23 March 2016.

He attended all five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.

KHOR MOOI KIM
Executive Director

Malaysian, aged 47, 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 ("HH Furniture") as an Administrator cum Human Resource Officer and was promoted to director in 1999. In 2012, she left HH Furniture and joined our Group as a director to manage our Group's human resource and administrative matters. She has accumulated twenty-five (25) years of experience in the furniture industry. She does not hold any directorship in other public companies in Malaysia.

She attended all five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.

TEH CHAI LUANG
Executive Director

Malaysian, aged 50, Teh Chai Luang is our Executive Director and was appointed to our Board on 28 May 2012. She completed her high school education in 1984 at Sekolah Menengah Kebangsaan Methodist (ACS) in Parit Buntar, Perak. In the same year, she started her career in her family's rattan container business and was attached to her family business until 1991. In 1991, she joined HH Furniture as an Administrator cum Sales Officer and was promoted to director in 1999. In 2012, she left HH Furniture and joined our Group as a director to head our sales and marketing activities. She has accumulated twenty-five (25) years of experience in the furniture industry. She does not hold any directorship in other public companies in Malaysia.

She attended four (4) out of five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.

KHOR TEIK BOON
Executive Director

Malaysian, aged 44, 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 HH Manufacturer in 2012 and joined our Group as Executive Director in the same year. He has 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 five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.

NG BOON KANG
Independent Non-Executive Director

Malaysian, aged 45, Ng Boon Kang is our Independent Non-Executive Director and was appointed to our Board on 6 December 2012. He is presently the Chairman of the Audit Committee and a member of the Nomination Committee and Remuneration Committee of the Company.

Mr Ng graduated with a Bachelor of Accountancy from Universiti Utara Malaysia in 1996. He is a member of the Malaysian Institute of Accountants, a Certified Financial Planner of the Financial Planning Association of Malaysia and a Registered Financial Planner of the Malaysian Financial Planning Council. He has also obtained a tax agent licence from the Ministry of Finance Malaysia in 2010.

He started his career with Chuah & Associates as an Audit Assistant in 1996 and was promoted to Audit Senior in 1997. In 1998, he left Chuah & Associates and joined KH Chew & Co as an Audit Manager. In 2004, he left KH Chew & Co and set up Crest Consulting, which provided business consulting, business planning and restructuring services. Crest Consulting has ceased its operations since 21 January 2006. Since 2006, he has joined BK Ng & Associates and TTP & Associates as a Tax Managing Partner and Audit Principal respectively. He does not hold any directorship in other public companies in Malaysia.

He attended four (4) out of five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) years other than traffic offences, if any.

LO LIANG KHENG
Independent Non-Executive Director

Malaysian, aged 52, 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 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 five (5) Board of Directors' Meeting held in the financial year ended 31 December 2015.

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 ten (10) 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

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 ("**Board**") is committed to ensure that high standards of corporate governance are practised and applied throughout the Group to create and deliver long term and sustainable shareholders values.

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 is committed to 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 ensuing paragraphs 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

1.1 Principal Responsibilities of the Board

The Board is collectively responsible to establish the overall strategic objectives of the Group, 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 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 division 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 are entrusted with specific duties and responsibilities to oversee the Group's affairs, in accordance with their respective terms of reference. The Board committees established are the Audit Committee, the Nomination Committee and the Remuneration Committee (collectively referred to as the "**Board Committees**"). 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 functions of Executive and Non-Executive Directors are distinguished and clearly defined. The presence of the Independent Non-Executive Directors ensures 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.

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.

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

1.2 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 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 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 as and when the Board deems necessary. The Charter has been published on the Company's corporate website at www.henghuat.com.my.

1.3 Code of Conduct

A formal code of conduct ("**the Code of Conduct**") outlining 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 has been published on the Company's corporate website.

1.4 Strategies Promoting Sustainability

The Board is mindful of the importance of building 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 year under review are disclosed on page 43 and 44 of this Annual Report.

1.5 Board Meeting and Supply of Information

The Board holds regular meetings on quarterly basis to discuss the overall strategy as well as the operations and financial performance of the Group, with additional meetings to be convened to resolve any major and ad hoc matters requiring immediate attention. Directors may participate either in person, or through electronic means of communication (via teleconference).

During the financial year under review, five (5) Board meetings have been convened. The details of attendance of the individual Directors at the Board meetings are as follows:

	Attendance of Meeting
Executive Directors	
H'ng Choon Seng	5/5
Kee Swee Lai	5/5
Lim Ghim Chai	5/5
Khor Mooi Kim	5/5
Teh Chai Luang	4/5
Khor Teik Boon	5/5
Independent Non-Executive Directors	
Dato' Juzilman Bin Basir	5/5
Ng Boon Kang	4/5
Lo Liang Kheng	5/5

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

1.5 Board Meeting and Supply of Information (Cont'd)

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

The Board enjoys full and unrestricted access to all information pertaining to the Group's affairs. In discharging their duties, the Board 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 information and 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.

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.

1.6 Company Secretary

The Board is satisfied with the performance and support rendered by the Company Secretary to the Board in discharging its duties and responsibilities. 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 also ensures that deliberations at the Board and its Committees meetings are properly minuted and kept.

PRINCIPLE 2 – STRENGTHEN COMPOSITION

The Board has established three (3) principle Board Committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee to assist the Board in discharging its duties and responsibilities.

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

The Board Committees deliberate matters within their operating parameters in greater details and report to the Board on matters deliberated together with their recommendations. Nevertheless, final decisions on all matters are subject to the Board's collective approval.

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.1 Nomination Committee

The Nomination 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 Nomination 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 Nomination Committee was held to undertake the following activities:

- 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; and

- Evaluated the Directors that shall retire at the forthcoming Annual General Meeting ("**AGM**") pursuant to the Company's Articles of Association, and made recommendation for their re-election.

The details of attendance are reflected below:

	Attendance of Meeting
Chairman	
Dato' Juzilman Bin Basir *(Independent Non-Executive Chairman)*	1/1
Members	
Ng Boon Kang *(Independent Non-Executive Director)*	Absent due to medical reason
Lo Liang Kheng *(Independent Non-Executive Director)*	1/1

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.1 Nomination Committee (Cont'd)

The Nomination 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.

The Nomination Committee upon assessment of the Board's size and composition are 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.

Recommendation 2.1 of the Code advocates that the Chairman of the Nomination 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.

2.2 Appointment and Re-Election of Directors

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

The selection and appointment of suitable candidates for the Board membership are conducted in systematic manner, which involve the following five (5) nomination procedures:

- Identification/ selection of candidates;
- Evaluation of suitability of candidates;
- Formal interview with candidates;
- Final deliberation by the Nomination Committee; and
- Recommendation to the Board for approval.

In the selection process, the Board and the Nomination 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 in respect of race, religion and gender although the Board and the Nomination Committee are cognisant of the gender diversity recommendation advocated by the Code.

Pursuant to the Company's Articles of Association, 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.

2.3 Board Gender Diversity

The Board is cognisant of the gender diversity recommendation promoted by the Code. Our 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 that maintaining the present Board is beneficial to the shareholders. Nevertheless, the Board will remain mindful of the gender diversity guideline when considering future changes to the Board's composition.

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.4 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, two (2) meetings 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)*	2/2
Members	
Ng Boon Kang *(Independent Non-Executive Director)*	1/2
Dato' Juzilman Bin Basir *(Independent Non-Executive Chairman)*	2/2
Lim Ghim Chai *(Executive Director)*	2/2

2.5 Directors' Remuneration

The details of the remuneration of the Directors for the financial year ended 31 December 2015 are as follows:

Aggregate Directors' Remuneration

Directors	Directors' Fees RM	Salaries and Other Emoluments RM	Total RM
Executive Directors	-	3,056,434^	3,056,434
Non-Executive Directors	123,600	-	123,600
Grand Total	**123,600**	**3,056,434**	**3,180,034**

^ A portion of an Executive Director's remuneration amounting to RM42,129 has been capitalised under research and development cost in respect of the time costs incurred on product development activities.

PRINCIPLE 2 – STRENGTHEN COMPOSITION (CONT'D)

2.5 Directors' Remuneration (Cont'd)

Analysis of Directors' Remuneration

Directors	Executive Directors	Non-Executive Directors
RM100,000 and below	-	3
RM100,001 – RM200,000	1	-
RM200,001 – RM300,000	3	-
RM850,001 – RM950,000	1	-
RM1,100,001 – RM1,200,000	1	-

The objective of the Group's remuneration policy is to attract, retain and motivate the Directors of the quality required to lead and control 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 reflective of their experience and level of responsibilities.

The Remuneration Committee recommends for the Board's approval, the framework of the Executive Directors' remuneration package and terms of employment. The determination of the remuneration package of Independent Non-Executive Directors is a matter for 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

3.1 Annual Assessment of Independent Non-Executive Directors

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

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

3.2 Tenure of Independent Non-Executive Directors

In line with the Code, the tenure of an Independent Director should not exceed a cumulative term of nine (9) years. However, after the completion of the nine (9) years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director. The Board may recommend for an Independent Director who has served a consecutive term of nine (9) years to remain as an Independent Director subject to the Board must justify the decision and seek shareholders' approval.

Currently, all the Independent Non-Executive Director of the Company has served less than the tenure of nine (9) years in the Company.

PRINCIPLE 3 – REINFORCE INDEPENDENCE (CONT'D)

3.3 Separation of Positions of Chairman and Managing Director

The Company practises a division of responsibilities between the Independent Non-Executive Chairman and the Managing Director. Their roles are separated and clearly defined to ensure a balance of power and authority, increased accountability and greater capacity of the Board for Independent decision-making. The Chairman is not related to the Managing Director. The Chairman is responsible for the Board's effectiveness and conduct. 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 business, making strategic business decision and implementing Board policies.

3.4 Composition of the Board

The Board consists of nine (9) Directors, 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
Ng Boon Kang	Independent Non-Executive Director
Lo Liang Kheng	Independent Non-Executive Director

The prevailing composition of the Board complies with the requirements stipulated under Rule 15.02 of the Listing Requirements, which requires at least two (2) Directors or 1/3 of the Board, whichever is the higher, to consist of Independent Non-Executive Directors.

The profiles of each Director are presented on pages 11 to 19 of this Annual Report.

Members of the Board are persons of high calibre from differing 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 vital for the continued success of the Group. To ensure an effective and independent supervision, all the Independent Non-Executive Directors in office are independent of the Management and major shareholders and are free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

PRINCIPLE 4 – FOSTER COMMITMENT

4.1 Time Commitment

The Board is satisfied with the level of time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of the Company. This is evidenced by the good attendance record of the Directors at Board meetings for the financial year under review, as set out above under Section 1.5 of this statement.

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. 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.

4.2 Continuing Education Programme for Directors

The Board is mindful that appropriate continuous training is essential for the Directors to keep abreast with the changes and developments in the marketplace and the corporate regulatory framework. To this end, 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 of Bursa Securities, corporate governance practices and principles, risk management and internal control approaches, as well as Malaysian Financial Reporting Standards.

The training programmes, seminars and briefings attended by the Directors during the financial year are as follows:

Name of the Director	Training Programme
Dato' Juzilman Bin Basir	• ISO 9001:2015 – Upgrading to the new standard
H'ng Choon Seng	• ISO 9001:2015 – Upgrading to the new standard
Kee Swee Lai	• ISO 9001:2015 – Upgrading to the new standard • Managing costs & wastage reduction
Lim Ghim Chai	• ISO 9001:2015 – Upgrading to the new standard • Seminar Percukaian Kebangsaan 2015
Khor Mooi Kim	• ISO 9001:2015 – Upgrading to the new standard
Teh Chai Luang	• ISO 9001:2015 – Upgrading to the new standard
Khor Teik Boon	• ISO 9001:2015 – Upgrading to the new standard
Lo Liang Kheng	• ISO 9001:2015 – Upgrading to the new standard
Ng Boon Kang	• MIA Public Practice Programme • CSP Practical Issues Part 2 – Challenges & Case Studies for Companies Secretaries • National Tax Conferences • Seminar Percukaian Kebangsaan 2015 • Seminar on Addressing Grey Areas of Company Secretarial Practice

PRINCIPLE 4 – FOSTER COMMITMENT (CONT'D)

4.2 Continuing Education Programme for Directors (Cont'd)

The Board recognise the importance of continuing professional development and the need for continuous update and training. The Board, via the Nomination 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 developments in the economy, 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.

PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING

5.1 Compliance with Applicable Financial Reporting Standard

The Board ensures that shareholders are provided with a balances and meaningful evaluation of the Company's financial performance, its positions and future prospects, through the issuance of Annual Audited Financial Statements and quarterly financial reports, and corporate announcements on significant developments affecting the Company in accordance with the Listing Requirements.

Details of the Directors' Responsibility in the preparation of the Group's financial statements are disclosed below under *Directors' Responsibility Statement.*

The Board is assisted by the Audit Committee in overseeing the Group's financial reporting processes and the quality of its financial reporting. The Audit Committee reviews the Group's annual financial statements and the quarterly financial statements focusing particularly on changes in accounting policies, Management's judgement in applying these accounting policies as well as the assumptions and estimated applied in accounting for certain material transactions.

5.2 Assessment of Suitability and Independence of External Auditors

The Board recognises that the Group's External Auditors serve an essential role in enhancing shareholders' confidence on the reliability of the Group's financial statements by expressing an independent opinion on whether the financial statements give a true and fair view of the Group's financial position and performance to the shareholders.

To this end, the Board is assisted by the Audit Committee to establish a transparent and appropriate relationship with the Group's External Auditors. Members of the Audit Committee meet the External Auditors at least twice a year without the presence of the executive Board members to discuss the results and concerns arising from their audit.

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

6.1 Risk Management

The Board recognises the importance 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 for the Group's risk management and internal control system which encompasses risk management practices as well as financial, operational and compliance controls. However, it should be noted 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 34 to 35 of this Annual Report provides an overview of the state of risk management and internal controls within the Group.

6.2 Internal Audit Function

To enhance the effectiveness of risk management and internal control systems, the Board had outsourced its internal audit function to an independent professional consulting firm.

The internal auditors will be able to provide additional independent review on the state of risk management and internal control of the Group and has an independent reporting channel 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 36 to 41 of this Annual Report.

PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE

7.1 Corporate Disclosure Policy

The Board is mindful on the importance of maintaining a proper corporate disclosure procedures with the aim to provide 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 takes due care and reasonable steps to ensure that the financial results are released to the shareholders and the general public on timely manner and the financial statements are presented with accuracy and adequacy and comply with all relevant regulatory reporting requirements and financial reporting standards.

7.2 Leverage on Information Technology for Effective Dissemination of Information

Heng Huat's website incorporates an Investor Relations ("**IR**") section 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, quarterly report, annual report and board charter as well as corporate governance structure of the Company.

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

PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

The Board recognises 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.

Annual report shall be one of the main channels of communication between the Group and its shareholders. The Annual Report communicates comprehensive information of the financial results and activities undertaken by the Group for the financial year under review. This is supported by timely release of financial results on a quarterly basis to provide shareholders and the general public with an overview of the Group's performance and operations progressively. Timely disclosures, press releases and announcements lodged with Bursa Securities are amongst other primary modes used by the Group to disseminate information on the Group's activities and financial performance.

The Company has also established a corporate website under www.henghuat.com.my for shareholders and the public to access for corporate information.

Another principal avenue of communication with its shareholders shall be the Company's AGM, which provides a useful platform for the shareholders to engage directly with the Board and the Management. 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. The notice of the AGM and related papers will be forwarded to shareholders with adequate time notice before the meeting.

All shareholders are invited and encouraged to attend the Company's AGM and to actively participate in the proceedings by posting questions on the proposed resolutions and to seek clarification on the Group's business and performance. Shareholders who are unable to attend are allowed to appoint proxies to attend and vote on their behalf. The Board hereby also encourages the shareholders to exercise their rights to demand poll voting in the general meeting, if deemed necessary.

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.

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 Company strives to provide as much information as possible to its shareholders and stakeholders, it upholds strict standards of confidentiality with regard to undisclosed material information under all circumstances and remains mindful of the legal and regulatory framework (particularly the Listing Requirements) governing the dissemination of information to shareholders and the general public.

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

The Board recognises the importance of the principles and recommendations set out in the Code. Save as disclosed within this Annual Report, the Group has, and will continue to apply the principles and recommendations promoted by the Code where practical and appropriate.

This statement was made in accordance with a board of directors' resolution dated 19 April 2016.

DIRECTORS' RESPONSIBILITY STATEMENT

In the course of preparing the annual financial statements for the Group and the Company, the Directors reaffirms that they are collectively responsible for ensuring that these financial statements are drawn up in accordance with the requirements of the Malaysian Financial Reporting Standards, International Financial Reporting Standards, 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 of the Group at the end of the financial year, the financial performance and cash flows of the Group for the financial year ended 31 December 2015.

In preparing the financial statements, the Directors have:

- adopted the relevant Malaysian Financial Reporting Standards and International Financial Reporting Standards;
- applied the appropriate and relevant accounting policies on consistent basis;
- 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 safeguard the assets of the Group, and to prevent and detect fraud as well as other irregularities.

This statement was made in accordance with a board of directors' resolution dated 19 April 2016.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board is committed to establishing and maintaining a sound risk management and internal control systems that support the Group's objectives and strategies, and to safeguard shareholders' investments and the Group's assets.

Accordingly, 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*.

The systems of internal control and risk management are designed to manage the Group's risks within an acceptable level rather than to eliminate the risk of failure to achieve business objective. Therefore, these systems can only provide reasonable and not absolute assurance against the risks of material misstatement of management and financial information, or against financial losses and fraud or breaches of laws or regulations.

RISK MANAGEMENT

The Group has adopted a formal, structured enterprise risk management framework that ensures an on-going process for identifying, evaluating and reporting risks that may affect the achievement of the Group's business objectives and strategies.

During the financial year ended 31 December 2015, the Group has engaged the services of an independent professional internal audit firm to assist the Group in carrying out the risk assessment to identify the key risks and appropriate action plans to reduce the risks to acceptable level.

Key risks and action plans are discussed at Board meetings. The Board will ensure that Management implement all action plans within the agreed timeline. The Management is responsible for the continuous monitoring and review of the key risks identified. The Management shall conduct a half-yearly review to ensure that all the key risks are maintained at acceptable level, and material findings (if any) shall be submitted to the Board for deliberation.

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

INTERNAL CONTROL

The Board is committed to maintaining a strong control structure and environment for the proper conduct of the Group's business operations and towards achieving a sound system of internal control. The key elements of the Group's system of internal control include:

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

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

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

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

- A fully independent Audit Committee comprising 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.

INTERNAL AUDIT FUNCTION

The Board acknowledge the importance of the internal audit function and has engaged the services of an independent professional internal audit firm to provide much of the assurance it requires regarding the effectiveness as well as the adequacy and integrity of the Group's systems of internal control.

The internal audit function is responsible for assisting the Audit Committee in evaluating and reviewing the adequacy and effectiveness 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 in accordance with a risk-based two (2) year audit plan approved by the Audit Committee. The internal audit provides an assessment of the adequacy, efficiency and effectiveness of the Group's system of internal control and where necessary, recommended improvements are presented to the Audit Committee at their half-yearly meetings. The internal audit reports are also circulated to the Management so that the recommendations for improvements to internal controls are implemented. In addition, the internal auditors also carried out follow-up reviews to ensure their recommendations are implemented within the required time frame.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

As required by Paragraph 15.23 of the MMLR, the external auditors have reviewed this Statement. As set out in their terms of engagement, the said review procedures were performed in accordance with the Recommended Practice Guide 5 (Revised): Guidance for Auditors on Engagements to Report on the *Statement on Risk Management and Internal Control Included in the Annual Report ("RPG 5"),* issued by Malaysian Institute of Accountants.

RPG 5 does not require the external auditors to consider whether this Statement covers all risks and controls, or to form an opinion on the adequacy and effectiveness of the Group's risk management and internal control system. RPG 5 also does not require the external auditors to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in this Annual Report will, in fact, remedy the problems.

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 suspects, in accordance with the disclosures required by paragraphs 41 and 42 of the *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers,* nor is it factually inaccurate.

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 2015.

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.

The Board and the Management continuously take measures to strengthen 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 19 April 2016.

AUDIT COMMITTEE REPORT

COMPOSITION

- **Ng Boon Kang**
  Chairman/ Independent Non-Executive Director

- **Dato' Juzilman Bin Basir**
  Member/ Independent Non-Executive Chairman

- **Lo Liang Kheng**
  Member/ Independent Non-Executive Director

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.

The Audit Committee is governed by the following terms of reference:

1. Appointment/ Composition

(a) The members of the Committee shall be appointed by the Board.

(b) The Committee shall consist of not less than three (3) members, all of whom shall be non-executive directors and financially literate. The majority of the members of the Committee shall be Independent Directors.

(c) At least one (1) member of the Committee:

- must be a member of the Malaysian Institute of Accountants; or
- if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and
  - he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act, 1967; or
  - he must be a member of one (1) of the associations of accountants specified in Part II of the First Schedule of the Accountants Act, 1967; or
- fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

(d) No Alternate Director shall be appointed as a member of the Committee.

(e) The Chairman of the Committee shall be appointed by the members of the Committee among their number who is an Independent Director.

(f) The Board must review the term of office and performance of the Committee and each of its members at least once every three (3) years to determine whether such Committee and its members have carried out their duties in accordance with the terms of reference.

(g) The Board shall, within three (3) months of a vacancy occurring in the Committee and resulting in the number of members reduced to below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.

2. Meetings

(a) Meetings shall be held not less than four (4) times in a year, with due notices of issues to be discussed, and should record its conclusions in discharging its duties and responsibilities. In addition, the Chairman of the Committee may call a meeting of the Committee if a request is made by any Committee members, the Company's Executive Chairman/CEO or the Internal or External Auditors if they consider it necessary.

(b) Meetings will be attended by the members of the Committee and the Company Secretary or the representative of the Secretary shall act as the secretary of the Committee.

(c) Participants may be invited from time to time to attend the meeting depending on the nature of the subject under review. These participants may include the Directors, General Managers, Division Heads, representatives from the Finance and Internal Audit Departments and External Auditors. The finance director, the head of internal audit and a representative of the external auditors should normally attend meetings. Other Directors and employees may only attend a Committee meeting at the Committee's invitation and specific to the relevant meeting.

(d) The quorum of the Committee meeting shall be two (2) members and composed of a majority of Independent Directors.

(e) The Chairman of the Committee should engage on a continuous basis with the senior management, such as the executive or non-executive chairman, the chief executive officer, the finance director, the head of the internal audit and the external auditors in order to be kept informed of matters affecting the Company.

(f) The Committee should meet with the external auditors without the presence of executive board members at least twice a year.

3. 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.

3. Authority (cont'd)

(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.

4. Functions and Responsibilities

The functions and responsibilities of the Committee shall include the following:

(a) Internal Audit

- The Board shall establish an internal audit function and identify a head of internal audit who reports directly to the Committee. The head of internal audit will be responsible for the regular review and/ or appraisal of the effectiveness of the risk management, internal control and governance processes within the Company. The internal audit function should be independent of the activities they audit and should be performed with impartiality, proficiency and due professional care. The Committee shall determine the remit of the internal audit function.

- To review the adequacy of the scope, functions, competency and resources of the internal audit function and that it has the necessary authority to carry out its work and to report the same to the Board.

- To review the internal audit programme and processes, the results of the internal audit programme, processes or investigation undertaken and when necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function and to report the same to the Board.

- To review any appraisal or assessment of the performance of members of the internal audit function.

- To approve any appointment or termination of senior staff members of the internal audit function, if the internal audit function is performed in-house.

- To take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reason for resigning, if the internal audit function is performed in-house.

(b) External Audit

- To review with the External Auditors the audit plan, the External Auditors' evaluation of the system of internal controls and the External Auditors' audit report, and report the same to the Board.

- To discuss with the External Auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved.

4. Functions and Responsibilities (Cont'd)

(b) External Audit (Cont'd)

- To review the recommendations of the External Auditors and to discuss problems and reservations arising from the interim and final audits, and any matter the Auditors may wish to discuss (in the absence of management where necessary).
- To review the External Auditors management letter and management's response.
- To review and report the same to the Board, the assistance given by employees of the Group to the External Auditors.
- To review the results and scope of the external audit and other services provided by the External Auditors.
- To review and report the same to the Board, any letter of resignation from or dismissal of the External Auditors of the Company as well as whether there is any reason (supported by grounds) to believe that the Company's External Auditors are not suitable for re-appointment.
- To assess the suitability and independence of the External Auditors.
- To make recommendations concerning the nomination and appointment of the External Auditors and their remuneration to the Board.

(c) Audit Reports

The reports of the Committee and the External and Internal Auditors and corrective action taken shall be tabled for discussion by the Board of Directors.

(d) Financial Reporting

To review and report the same to the Board quarterly reports and annual financial statements prior to the approval of the Board, focusing particularly on:

(i) changes in or implementation of major accounting policy and practices changes;
(ii) significant and unusual events;
(iii) significant adjustments arising from the audit;
(iv) the going concern assumption; and
(v) compliance with accounting standards and other legal requirements. To ensure financial statements comply with applicable financial reporting standards.

(e) Related Party Transaction and Conflict of Interests Situations

To review and report the same to the Board any related party transactions and conflict of interest situation that may arise within the Company and the Group including any transaction, procedure or course of conduct that raises questions of management integrity.

(f) Allocation of Options

To review and verify the allocation of options to employees under Employees Share Option Scheme.

4. Functions and Responsibilities (Cont'd)

(g) Reporting of Breaches to the Exchange

Where the Committee is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the ACE Market Listing Requirements, the Committee must promptly report such matter to Bursa Malaysia Securities Berhad.

(h) Major Findings

To consider the major findings of internal investigations and management's response.

(i) Other Matters

To consider other topics as defined by the Board.

5. Minutes

The Secretary shall maintain minutes of the proceedings of the meetings and circulate such minutes to all members of the Committee and to the Board members.

6. Attendance at Meetings

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

Members	Attendance of Meetings
Ng Boon Kang	4/5
Dato' Juzilman Bin Basir	5/5
Lo Liang Kheng	5/5

7. Summary of Activities

During the financial year, the Audit Committee has carried out the following activities in discharge of its duties and responsibilities:

- Reviewed the unaudited quarterly financial results and announcements before recommending them to the Board for consideration and approval and the release of the Group's results to Bursa Securities;
- Reviewed with the External Auditors, the scope of work and audit plan for the financial year ended 31 December 2015;
- Reviewed with the Internal Auditors, the internal audit plan and scope of work;
- Reviewed the internal audit reports and enterprise risk management report submitted by the Internal Auditors, and discussed the findings and recommendations therefrom with the Management;
- Reviewed the related party transactions carried out by the Group during the financial year;
- Reviewed the circular to shareholders before recommending them to the Board for consideration and approval;

7. Summary of Activities (cont'd)

- Reviewed the performance appraisal of the Internal and External Auditors and recommended the Board for their re-appointment;

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

- Reviewed any significant or unusual events.

Subsequent to the financial year end, the Audit Committee had reviewed, approved and recommended the audited financial statements of the Company and the Group for the financial year ended 31 December 2015, and the Audit Committee Report, Statement of Corporate Governance and Statement on Risk Management and Internal Control, for the Board's approval.

8. Internal Audit Function

The Group has outsourced the internal audit function to an external professional internal audit firm, Total Advisors Sdn Bhd.

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 integrity of controls. The internal audit function assists the Audit Committee in discharging its duties and responsibilities with respect to the adequacy and integrity of the systems of internal control within the Group.

During the financial year under review, the Internal Auditors have conducted review on the following areas/ departments, the findings and recommendations of which were reported to the Audit Committee subsequent to the financial year end:

- Purchasing Department
- Raw Material Store
- Sales and Marketing Department
- Warehouse/ Logistics Department
- Contra Transactions

The Internal Auditors have concluded that the overall performance of internal control activities on the covered areas/ departments to be satisfactory. Identified weaknesses and recommendations for improvement have been reported to the Audit Committee and communicated to the Management.

In addition to that, the Internal Auditors have also carried out a follow-up review on the implementation of enterprise risk management framework by the Group and concluded that the recommended framework has been put in place.

The total internal audit fees payable for the abovementioned reviews carried out during the financial year under review amounted to RM41,600.

ADDITIONAL COMPLIANCE INFORMATION

1. UTILISATION OF PROCEEDS

The Company has completed the public issue and its listing on the ACE Market of Bursa Malaysia Securities Berhad on 25 July 2014. The gross proceeds raised by the Company from the public issue amounted to approximately RM20.93 million.

As of 31 December 2015, the gross proceeds from the public issue had been fully utilised in the following manner:

	Purpose	Intended Time Frame for Use (from listing date)	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation Amount RM'000	%
(i)	Capital expenditure	Within 36 months	4,000	4,000	-	-
(ii)	Repayment of borrowings	Within 12 months	9,378	9,378	-	-
(iii)	Working capital	Within 12 months	4,547	4,547	-	-
(iv)	Estimated listing expenses	Upon Listing	3,000	3,000	-	-
	Total gross proceeds		20,925	20,925	-	-

2. SHARE BUY-BACK

The Company did not undertake any share buy-back exercise during the financial year under review.

3. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

There were no options, warrants or convertible securities issued by the Company during the financial year under review.

4. DEPOSITORY RECEIPT PROGRAMME

The Company did not sponsor any depository receipt programme during the financial year under review.

5. SANCTIONS AND/OR PENALTIES

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year under review.

6. NON-AUDIT FEES

During the financial year under review, the Group has incurred RM85,200 non-audit fees for advisory and corporate tax compliance services rendered by the External Auditors and its affiliated firm.

7. VARIATION IN RESULTS

There was no material variance (exceeding 10% or more) between the audited results for the financial year and the unaudited results previously announced.

The Company did not issue any profit estimates, forecast or projections for the financial year.

8. PROFIT GUARANTEE

There were no profit guarantees received by the Company in respect of the financial year under review.

9. 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.

10. 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.

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

RRPTs entered into by the Group during the financial year under review are disclosed under Note 32 to the Financial Statements on page 108 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.

12. EMPLOYEE SHARE SCHEME

There was no Employee Share Scheme implemented by the Company during the financial year under review.

13. CORPORATE SOCIAL RESPONSIBILITY

Our Group is committed to fulfil our corporate social responsibility towards the key stakeholders of the Company, as we believe that the well-doing of the society is essential for the continuous and long term success of our Group.

- ***Workplace***

  Our Group recognises that continuous success is impossible to achieve, without the dedicated efforts and supports from our employees. Our Group endeavours to create a safe and healthy working environment for our employees.

  It is our 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.

  To promote awareness for healthy lifestyle and as part the Group's team-building efforts, the Group has organised a day trip of hiking to Cherok To'kun Hill (Bukit Mertajam) for the employees.

13. CORPORATE SOCIAL RESPONSIBILITY (CONT'D)

- ***Environment***

Environmental protection is embedded into our Group's operations and corporate culture, and is one of the elementary competitive strength of our Group's operations. Our 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 further minimise the environmental impact of our Group's operations, we reuse waste (by-products from our biomass materials production such as foreign waste materials and short fibre) to generate biomass energy. The biomass energy is then used to supplement the power needs of the manufacture of our biomass materials and value-added products, which helps to reduce our reliance on firewood and lower the risk of pollution.

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

- ***Marketplace***

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

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

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

- ***Community***

Our Group truly appreciates that we should contribute to the community, as the well-being of the community underlies our Group's long term and sustainable development. During the financial year, our Group has sponsored several sports events within the local community and Penang state in promotion of healthy lifestyle.

In addition to that, our Group has organised a blood donation campaign at our factory in collaboration with Hospital Seberang Jaya and Malaysian Red Crescent South of Seberang Perai Chapter during the financial year under review, and has encouraged our employees to participate in this meaningful event along with other members of the public.

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 2015.

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 for the financial year	10,661,029	5,693,215
Attributable to:		
Owners of the parent	8,800,204	5,693,215
Non-controlling interests	1,860,825	0
	10,661,029	5,693,215

DIVIDEND

Dividend paid and declared since the end of the previous financial year was as follows:

	COMPANY RM
In respect of financial year ending 31 December 2015:	
First interim single tier dividend of 5% per ordinary share at par value, paid on 31 March 2015	1,029,000

The Directors do not recommend any payment of final dividend for the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

ISSUE OF SHARES AND DEBENTURES

During the 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.

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.

ISSUE OF SHARES AND DEBENTURES (Cont'd)

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

OPTIONS GRANTED OVER UNISSUED SHARES

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

DIRECTORS

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

Dato' Juzilman Bin Basir
H'ng Choon Seng
Kee Swee Lai
Lim Ghim Chai
Khor Mooi Kim
Teh Chai Luang
Khor Teik Boon
Ng Boon Kang
Lo Liang Kheng

DIRECTORS' INTERESTS

The Directors holding office at the end of the financial year and their beneficial interests in the ordinary shares in the Company and of its related corporations during the financial year ended 31 December 2015 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 1.1.2015	**Bought/ Transfer**	**Bonus issue**	**Sold/ Transfer**	**Balance as at 31.12.2015**
Shares in the Company					
Direct interests:					
H'ng Choon Seng	72,970,110	50,000	36,485,057	(50,000)	109,455,167
Kee Swee Lai	54,384,870	7,400,000	21,074,934	(20,235,000)	62,624,804
Lim Ghim Chai	0	5,000,000	2,500,000	(2,000,000)	5,500,000
Khor Mooi Kim	392,520	5,365,750	1,646,510	0	7,404,780
Teh Chai Luang	392,520	5,784,750	1,227,510	0	7,404,780
Khor Teik Boon	0	2,719,000	859,500	(1,859,500)	1,719,000
Lo Liang Kheng	0	60,000	0	(20,000)	40,000
Indirect interests:					
H'ng Choon Seng ^	16,500,000	0	6,187,500	(10,312,500)	12,375,000
Khor Teik Boon ^^	0	1,859,500	250,000	(1,100,000)	1,009,500

DIRECTORS' INTERESTS (Cont'd)

^ *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.

None of the other Directors holding office at the end of the financial year held any interest in ordinary shares of the Company and 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 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, except for any benefit which may be deemed to have arisen by virtue of those transactions entered into in the ordinary course of business as disclosed in Note 32 to the financial statements.

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

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 have been made for doubtful debts; and

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

(b) In the opinion of the Directors, the results of operations of the Group and of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature.

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

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

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

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

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

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

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

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

(d) In the opinion of the Directors:

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

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

(III) AS AT THE DATE OF THIS REPORT

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

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

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

During the financial year:

(i) 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 shares for working capital purposes.

(ii) a wholly-owned subsidiary of the Company, HK Power Sdn. Bhd. has 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 for a cash consideration of RM8,810,000.

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
14 March 2016

STATEMENT BY DIRECTORS

In the opinion of the Directors, the financial statements set out on pages 54 to 125 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 2015 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 126 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
14 March 2016

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 54 to 126 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 14 March 2016

Lim Ghim Chai

Before me,

Mok Cheng Yoon *PJK*
No. P140
Commissioner for Oaths

Report on the Financial Statements

We have audited the financial statements of Heng Huat Resources Group Berhad, which comprise statements of financial position as at 31 December 2015 of the Group and of the Company, and statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 54 to 125.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as of 31 December 2015 and of their financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

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

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

b) We are satisfied that the 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

Koay Theam Hock
2141/04/17 (J)
Chartered Accountant

Penang
14 March 2016

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	GROUP 2015 RM	GROUP 2014 RM	COMPANY 2015 RM	COMPANY 2014 RM
ASSETS					
Non-current assets					
Property, plant and equipment	7	81,431,334	62,291,541	124,853	402,673
Intangible assets	8	961,304	1,144,807	0	0
Investments in subsidiaries	9	0	0	17,384,953	16,430,004
		82,392,638	63,436,348	17,509,806	16,832,677
Current assets					
Inventories	10	7,617,059	5,889,608	0	0
Trade and other receivables	11	31,790,844	21,570,454	19,587,018	5,589,301
Current tax assets		742,119	451,990	12,744	15,000
Cash and bank balances	12	10,469,151	17,666,488	209,763	9,708,965
		50,619,173	45,578,540	19,809,525	15,313,266
TOTAL ASSETS		133,011,811	109,014,888	37,319,331	32,145,943

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015 (CONT'D)

		GROUP		COMPANY	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	13	30,870,005	20,580,003	30,870,005	20,580,003
Reserves	14	44,920,693	47,558,406	5,808,234	11,552,936
		75,790,698	68,138,409	36,678,239	32,132,939
Non-controlling interests		5,255,149	4,594,324	0	0
TOTAL EQUITY		81,045,847	72,732,733	36,678,239	32,132,939
LIABILITIES					
Non-current liabilities					
Borrowings	15	13,942,497	15,493,710	0	0
Deferred tax liabilities	19	894,805	682,395	95,600	0
		14,837,302	16,176,105	95,600	0
Current liabilities					
Trade and other payables	20	18,075,217	10,447,050	545,492	13,004
Derivative liability	21	108,302	213,593	0	0
Borrowings	15	18,945,143	9,434,612	0	0
Current tax liabilities		0	10,795	0	0
		37,128,662	20,106,050	545,492	13,004
TOTAL LIABILITIES		51,965,964	36,282,155	641,092	13,004
TOTAL EQUITY AND LIABILITIES		133,011,811	109,014,888	37,319,331	32,145,943

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 2015

		GROUP		COMPANY	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
Revenue	24	91,016,360	91,660,196	7,000,000	0
Cost of sales	25	(54,496,856)	(52,359,974)	0	0
Gross profit		36,519,504	39,300,222	7,000,000	0
Other operating income		4,341,040	1,028,643	60,390	95,367
Selling and distribution cost		(15,115,403)	(16,062,556)	0	0
Administrative and other expenses		(12,784,815)	(9,186,737)	(1,271,575)	(2,305,957)
Finance costs	26	(1,613,897)	(2,140,034)	0	(118)
Profit/(Loss) before tax	27	11,346,429	12,939,538	5,788,815	(2,210,708)
Tax expense	28	(685,400)	(368,011)	(95,600)	0
Profit/(Loss) for the financial year		10,661,029	12,571,527	5,693,215	(2,210,708)
Other comprehensive income, net of tax		0	0	0	0
Total comprehensive income/(loss)		10,661,029	12,571,527	5,693,215	(2,210,708)

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

		GROUP		COMPANY	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
Profit/(Loss) for the financial year attributable to:					
Owners of the parent		8,800,204	10,279,177	5,693,215	(2,210,708)
Non-controlling interests		1,860,825	2,292,350	0	0
		10,661,029	12,571,527	5,693,215	(2,210,708)
Total comprehensive income/(loss) attributable to:					
Owners of the parent		8,800,204	10,279,177	5,693,215	(2,210,708)
Non-controlling interests		1,860,825	2,292,350	0	0
		10,661,029	12,571,527	5,693,215	(2,210,708)
Earnings per ordinary share attributable to equity holders of the Company (sen):					
Basic	29	3.47	5.72		
Diluted	29	3.47	5.72		

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Group	[---- 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 2014	15,930,003	0	(5,185,000)	26,601,188	37,346,191	2,501,974	39,848,165
Profit for the financial year	0	0	0	10,279,177	10,279,177	2,292,350	12,571,527
Other comprehensive income, net of tax	0	0	0	0	0	0	0
Total comprehensive income	0	0	0	10,279,177	10,279,177	2,292,350	12,571,527
Transaction with owners							
Dividend paid to non-controlling interest of a subsidiary	0	0	0	0	0	(200,000)	(200,000)
Public issue	4,650,000	16,275,000	0	0	20,925,000	0	20,925,000
Share issue expenses	0	(411,959)	0	0	(411,959)	0	(411,959)
Total transaction with owners	4,650,000	15,863,041	0	0	20,513,041	(200,000)	20,313,041
Balance as at 31 December 2014	20,580,003	15,863,041	(5,185,000)	36,880,365	68,138,409	4,594,324	72,732,733

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

		[---------------- Non-distributable	-----------------	-----------------]	Distributable			
Group	**Note**	**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.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Company	Note	[--------- Non-distributable Share capital RM	----------] Share premium RM	Distributable (Accumulated losses)/ Retained earnings RM	Total RM
Balance as at 1 January 2014		15,930,003	0	(2,099,397)	13,830,606
Loss for the financial year		0	0	(2,210,708)	(2,210,708)
Other comprehensive income, net of tax		0	0	0	0
Total comprehensive loss		0	0	(2,210,708)	(2,210,708)
Transaction with owners					
Public issue		4,650,000	16,275,000	0	20,925,000
Share issue expenses		0	(411,959)	0	(411,959)
Total transaction with owners		4,650,000	15,863,041	0	20,513,041
Balance as at 31 December 2014		20,580,003	15,863,041	(4,310,105)	32,132,939
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		10,290,002	(10,290,002)		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

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

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

		GROUP		COMPANY	
	Note	2015 RM	2014 RM	2015 RM	2014 RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(Loss) before tax		11,346,429	12,939,538	5,788,815	(2,210,708)
Adjustments for:					
Amortisation of intangible assets					
- development costs	8	342,771	82,913	0	0
- trademarks	8	236	236	0	0
Bad debts written off		84,600	8,468	0	0
Dividend income		0	0	(7,000,000)	0
Depreciation of property, plant and equipment	7	6,999,464	5,897,475	27,746	44,742
Fair value adjustment on derivative liability	21	(105,291)	213,593	0	0
Gain on disposal of property, plant and equipment		0	(72,455)	0	0
Loss on disposal of property, plant and equipment		578,280	0	0	0
Impairment losses on:					
- investments in subsidiaries	9	0	0	295,047	0
- trade receivables	11	483,357	0	0	0
- property, plant and equipment	7	0	34,068	0	0
Property, plant and equipment written off		0	76,017	0	0
Unrealised gain on foreign exchange		(843,765)	(575,139)	0	0
Interest expense	26	1,613,897	2,140,034	0	118
Interest income		(160,848)	(167,206)	(60,390)	(95,367)
Listing expenses		88,266	1,873,969	88,266	1,873,969
Operating profit/(loss) before changes in working capital		20,427,396	22,451,511	(860,516)	(387,246)
Increase in inventories		(1,727,451)	(1,671,661)	0	0
Increase in trade and other receivables		(9,944,582)	(1,616,966)	(13,997,717)	(5,589,301)
(Decrease)/Increase in trade and other payables		7,628,167	(778,273)	532,488	(3,037,325)
Cash generated from/(used in) operations		16,383,530	18,384,611	(14,325,745)	(9,013,872)
Tax (paid)/ refunded		(773,914)	(966,406)	2,256	(15,000)
Net cash from/(used in) operating activities		15,609,616	17,418,205	(14,323,489)	(9,028,872)

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

	Note	GROUP 2015 RM	GROUP 2014 RM	COMPANY 2015 RM	COMPANY 2014 RM
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		160,848	167,206	60,390	95,367
Changes in deposits pledged with licensed banks		(149,006)	(87,405)	0	0
Development costs incurred	8	(159,504)	(903,010)	0	0
Dividend received from a subsidiary		0	0	7,000,000	0
Purchase of property, plant and equipment	7(a)	(25,875,006)	(7,187,983)	0	0
Proceeds from disposal of property, plant and equipment		1,244,532	193,558	250,074	0
Subscription for shares in a subsidiary company		0	0	0	(4)
Net cash (used in)/from investing activities		(24,778,136)	(7,817,634)	7,310,464	95,363
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend paid to non-controlling interests of a subsidiary		(1,200,000)	(200,000)	0	0
Dividend paid to shareholders of Company		(1,029,000)	0	(1,029,000)	0
Proceeds from public issue		0	20,925,000	0	20,925,000
Share issue and listing expenses		(207,181)	(2,285,928)	(207,181)	(2,285,928)
Drawdown of term loans		6,505,817	0	0	0
Interest paid		(1,613,897)	(2,140,034)	0	(118)
Acquisition of additional interest in a subsidiary	9	0	0	(1,249,996)	0
Repayment of hire purchase payables		(2,639,323)	(8,058,997)	0	0
Repayment of bankers' acceptances		6,350,000	(2,268,000)	0	0
Repayment of term loans		(7,551,188)	(2,542,852)	0	0
Net cash (used in)/from financing activities		(1,384,772)	3,429,189	(2,486,177)	18,638,954
Net (decrease)/increase in cash and cash equivalents		(10,553,292)	13,029,760	(9,499,202)	9,705,445
Cash and cash equivalents at beginning of financial year		15,212,793	2,183,033	9,708,965	3,520
Cash and cash equivalents at end of financial year	12(a)	4,659,501	15,212,793	209,763	9,708,965

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

1. CORPORATE INFORMATION

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

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

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

The consolidated financial statements for the financial year ended 31 December 2015 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 14 March 2016.

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 11 to 104 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 105 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.

The preparation of financial statements in conformity with MFRSs requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. In addition, the Directors are also required to exercise their judgement in the process of applying the accounting policies. The areas involving such judgements, estimates and assumptions are disclosed in Note 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. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.2 Basis of consolidation

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

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

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

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

Intragroup balances, transactions, income and expenses are eliminated on consolidation. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the interest of the Group in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the other entities in the Group.

Non-controlling interests represent the equity in subsidiaries that are not attributable, directly or indirectly, to owners of the parent, and is presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.2 Basis of consolidation (Cont'd)

If the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

(i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and

(ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 *Financial Instruments: Recognition and Measurement* or, where applicable, the cost on initial recognition of an investment in associate or joint venture.

4.3 Business combinations

Business combinations are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

(a) Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;

(b) Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 Business combinations (Cont'd)

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at fair value. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement basis is made on an combination-by-combination basis. Subsequent to initial recognition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the previously held equity interest of the Group in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. The accounting policy for goodwill is set out in Note 4.6(a) to the financial statements. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

4.4 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset would flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life, is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal depreciation period and annual rates are as follows:

Long term leasehold land	82 years
Factory building	2% - 5%
Signboard	10%
Renovation	10%
Furniture, fittings and office equipment	10%
Computers	40%
Container	10%
Electrical installation	10%
Machinery and equipment	10%
Motor vehicles	20%

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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 and the revaluation surplus related to those assets, if any, is transferred directly to retained earnings.

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 to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.6 Intangible assets (Cont'd)

(a) Goodwill (Cont'd)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.6 Intangible assets (Cont'd)

(b) Other intangible assets (Cont'd)

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 five (5) to ten (10) years.

4.7 Leases and hire purchase

(a) Hire purchase

Assets acquired under hire purchase which transfer substantially all the risks and rewards of ownership to the Group are recognised initially at amounts equal to the fair value of the leased assets or, if lower, the present value of minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the leases, if this is practicable to determine; if not, the incremental borrowing rate of the Group is used. Any initial direct costs incurred by the Group are added to the amount recognised as an asset. The assets are capitalised as property, plant and equipment and the corresponding obligations are treated as liabilities. The property, plant and equipment capitalised are depreciated on the same basis as owned assets.

The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are recognised in profit or loss over the period of the lease term so as to produce a constant periodic rate of interest on the remaining lease and hire purchase liabilities.

(b) Operating lease

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

(c) Leases of land and buildings

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised as income immediately in profit or loss.

4.9 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined using the first-in, first-out formula. The cost of raw materials and packing materials comprises all costs of purchase, cost of conversion plus other costs incurred in bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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. Net gains or losses on financial assets classified as fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other income or other operating losses.

However, derivatives that 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(ii) Held-to-maturity investments (Cont'd)

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.

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

A financial asset is derecognised when the contractual right to receive cash flows from the financial asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised directly in other comprehensive income shall be recognised in profit or loss.

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or marketplace convention. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Financial instruments (Cont'd)

(b) Financial liabilities

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. A financial liability is classified into the following two (2) categories after initial recognition for the purpose of subsequent measurement:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise financial liabilities that are held for trading, derivatives (both, freestanding and embedded) and financial liabilities that were specifically designated into this classification upon initial recognition.

Subsequent to initial recognition, financial liabilities classified as fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in the fair value of financial liabilities classified as fair value through profit or loss are recognised in profit or loss. Net gains or losses on financial liabilities classified as fair value through profit or loss exclude foreign exchange gains and losses, interest and dividend income. Such income is recognised separately in profit or loss as components of other income or other operating losses.

(ii) Other financial liabilities

Financial liabilities classified as other financial liabilities comprise non-derivative financial liabilities that are neither held for trading nor initially designated as at fair value through profit or loss.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method. Gains or losses on other financial liabilities are recognised in profit or loss when the financial liabilities are derecognised and through the amortisation process.

A financial liability is derecognised when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Any difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

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

The Group and the Company designate corporate guarantees given to banks for credit facilities granted to subsidiaries as insurance contracts as defined in MFRS 4 *Insurance Contracts*. The Group and the Company recognise these insurance contracts as recognised insurance liabilities when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits would be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.10 Financial instruments (Cont'd)

(b) Financial liabilities (Cont'd)

(ii) Other financial liabilities (Cont'd)

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

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

(c) Equity

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are classified as equity instruments.

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.

4.11 Impairment of financial assets

The Group assesses whether there is any objective evidence that a financial asset is impaired at the end of each reporting period.

<u>Loans and receivables</u>

The Group collectively considers factors such as the probability of bankruptcy or significant financial difficulties of the receivable, and default or significant delay in payments by the receivable, to determine whether there is objective evidence that an impairment loss on loans and receivables has occurred. Other objective evidence of impairment include historical collection rates determined on an individual basis and observable changes in national or local economic conditions that are directly correlated with the historical default rates of receivables.

If any such objective evidence exists, the amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.11 Impairment of financial assets (Cont'd)

Loans and receivables (Cont'd)

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 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 profit or loss and other comprehensive income comprise current tax and deferred tax.

(a) Current tax

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

(b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statement of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.13 Income taxes (Cont'd)

(b) Deferred tax (Cont'd)

Deferred tax would be recognised as income or expense and included in the profit or loss for the period unless the tax relates to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax would be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the announcement of tax rates by the Government in the annual budgets which have the substantive effect of actual enactment by the end of each reporting period.

4.14 Provisions

Provisions are recognised when there is a present obligation, legal or constructive, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits 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.

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 contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under business combinations, contingent liabilities assumed are measured initially at their fair value at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.16 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.18 Revenue recognition (Cont'd)

Revenue is recognised to the extent that it is probable that the economic benefits associated with the transaction would flow to the Group, and the amount of revenue and the cost incurred or to be incurred in respect of the transaction can be reliably measured and specific recognition criteria have been met for each of the activities of the Group as follows:

(a) Sale of goods

Revenue from sale of goods is recognised when significant risk and rewards of ownership of the goods has been transferred to the customer and where the Group retains neither continuing managerial involvement over the goods, which coincides with the delivery of goods and acceptance by customers, net of discounts.

(b) Dividend income

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

(c) Interest income

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

(d) Rental income

Rental income is accounted for on a straight line basis over the lease term of an ongoing lease. The aggregate cost of incentives provided to the lessee is recognised as reduction of rental income over the lease term on a straight line basis.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.19 Operating segments (Cont'd)

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

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

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

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

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

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

4.20 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.21 Fair value measurements (Cont'd)

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

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

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

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

5. ADOPTION OF NEW MFRSs AND AMENDMENT TO MFRSs

5.1 New MFRSs adopted during the financial year

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

Title	Effective Date
Amendments to MFRS 119 *Defined Benefit Plans: Employee Contributions*	1 July 2014
Amendments to MFRSs *Annual Improvements 2010 – 2012 Cycle*	1 July 2014
Amendments to MFRSs *Annual Improvements 2011 – 2013 Cycle*	1 July 2014

There is no material impact upon the adoption of these Amendments during the financial year.

5.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2016

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
MFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associates or Joint Venture*	Deferred
Amendments to MFRS 10, MFRS 12 and MFRS 128 *Investment Entities: Applying the Consolidation Exception*	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

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 2016 (Cont'd)

Title	Effective Date
Amendments to MFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*	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
MFRS 15 *Revenue from Contracts with Customers*	1 January 2018
MFRS 9 *Financial Instruments (IFRS as issued by IASB in July 2014)*	1 January 2018

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

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

6.1 Changes in estimates

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

The Directors are of the opinion that there are no significant changes in estimates at the end of the reporting period.

6.2 Critical judgements made in applying accounting policies

The following are judgements made by the Directors and management in the process of applying the accounting policies of the Group that have the most significant effect on the amounts recognised in the financial statements.

(a) Classification of leasehold land

The Group has assessed and classified land use rights of the Group as finance leases based on the extent to which risks and rewards incidental to ownership of the land resides with the Group arising from the lease term. Consequently, the Group has classified the unamortised upfront payment for land use rights as finance leases in accordance with MFRS 117 *Leases.*

(b) Classification of non-current bank borrowings

Term loan agreements entered into by the Group include repayment on demand clauses at the discretion of financial institutions. The Group believes that in the absence of a default being committed by the Group, these financial institutions are not entitled to exercise its right to demand for repayment. Accordingly, the carrying amount of the term loans have been classified between current and non-current liabilities based on their repayment period.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

6.2 Critical judgements made in applying accounting policies (Cont'd)

(c) Contingent liabilities on corporate guarantees

The Directors are of the view that the chances of the financial institutions to call upon the corporate guarantees are remote.

(d) Consolidation of an entity in which the Group holds less than majority of voting rights

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.

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.

6.3 Key Sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Depreciation and useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment at the time the assets are acquired based on historical experience, the expected usage, wear and tear of the assets and technical obsolescence arising from changes in the market demands or service output of the assets. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to changes in the factors mentioned above. Changes in these factors could impact the useful lives and the residual values of the assets and therefore, future depreciation charges could be revised. A five percent (5%) difference in the average useful lives of these assets from the management's estimates would result in approximately three percent (3%) variance in profit for the financial year.

(b) Impairment of receivables

The Group makes impairment of receivables based on an assessment of the recoverability of receivables. Impairment is applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyses historical bad debts, customer concentration, customer creditworthiness, current economic trends and changes in customer payment terms when making a judgement to evaluate the adequacy of impairment of receivables. Where expectations differ from the original estimates, the differences would impact the carrying amount of receivables.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

6.3 Key Sources of estimation uncertainty (Cont'd)

(c) Fair values of borrowings

The fair values of borrowings are estimated by discounting future contractual cash flows at the current market interest rates available to the Group for similar financial instruments. Sensitivity analysis of the effects of interest rate risk has been disclosed in Note 34 to the financial statements.

(d) Income taxes

Significant judgement is required in determining the capital allowances and deductibility of certain expenses based on interpretation of tax laws and legislations during the estimation of the provision for income taxes. The Group recognised liabilities for tax based on estimates of assessment of the tax liability due. Where the final tax outcome is different from the amounts that were initially recorded, such differences would impact the income tax and deferred income tax provisions, where applicable, in the period in which such determination is made.

(e) Impairment of assets

The Group determines whether an asset is impaired by evaluating the extent to which the recoverable amount of an asset is less than its carrying amount. This evaluation is subject to factors such as market performance, economic and political situation of the country.

Recoverable amount is measured at the higher of the fair value less cost to sell for that asset and its value in use. The value in use is the net present value of the projected future cash flows derived from that asset discounted at an appropriate discount rate. For such discounted cash flow method, it involves the use of estimated future results and a set of assumptions to reflect its income and cash flows. Judgement has also been used to determine the discount rate for cash flows and the future growth of the business.

(f) Impairment of investments in subsidiaries

The management reviews the material investments in subsidiaries for impairment when there is an indication of impairment.

The recoverable amounts of the investments in subsidiaries are assessed by reference to the higher of its fair value less cost to sell and its value in use of the respective subsidiaries.

Estimating value in use requires management to make an estimate of the expected future cash flows to be derived from continuing use of the asset and from its ultimate disposal, expectations about possible variations in the amount, timing of those cash flows, the time value of money, price for inherent uncertainty risk and other relevant factors.

(g) Fair value measurement

The financial and non-financial assets and liabilities that are measured subsequent to initial recognition at fair value are grouped into Level 1 to Level 3 based on the degree to which the fair value inputs are observable.

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

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

6.3 Key Sources of estimation uncertainty (Cont'd)

(g) Fair value measurement (Cont'd)

(ii) 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; and

(iii) 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).

The classification of an item into the above levels is based on the lowest level of the inputs used in the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Company measures its financial instruments at fair value as disclosed in Note 33 to the financial statements.

7. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold 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	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	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	(16,040)	(6,910)	(112,700)	0	(612,096)	(1,284,963)	(455,000)	(2,487,709)
Reclassification	10,992	260,355	0	0	0	0	0	0	0	437,660	245,175	(954,182)	0
At 31 December 2015	7,056,749	4,987,310	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	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	55,142	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	(2,916)	(3,908)	(31,541)	0	(137,538)	(488,994)	0	(664,897)
At 31 December 2015	0	64,921	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	34,068	0	0	34,068
Net book value													
At 31 December 2015	7,056,749	4,922,389	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

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

Group	Freehold 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 2014	9,245,757	807,572	12,797,740	23,204	1,066,304	641,475	156,130	210,090	3,385,349	36,000,469	6,033,940	0	70,368,030
Additions	0	0	2,097,872	0	366,686	9,238	16,349	291,815	450,503	2,693,534	2,316,067	931,220	9,173,284
Disposals	0	0	0	0	0	(298)	0	0	0	(41,700)	(373,711)	0	(415,709)
Written off	0	0	0	0	0	0	0	0	0	(4,000)	(95,000)	0	(99,000)
Reclassification	(2,200,000)	0	2,200,000	0	0	0	0	0	0	0	0	0	0
At 31 December 2014	7,045,757	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
Accumulated depreciation													
At 1 January 2014	0	0	845,793	5,884	413,221	204,567	52,870	56,581	632,585	6,766,935	2,142,674	0	11,121,110
Current charge	0	9,779	471,685	1,106	119,058	24,818	6,079	111,671	361,530	3,469,747	1,322,002	0	5,897,475
Disposals	0	0	0	0	0	(10)	0	0	0	(13,451)	(281,145)	0	(294,606)
Written off	0	0	0	0	0	0	0	0	0	(2,400)	(20,583)	0	(22,983)
At 31 December 2014	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
Accumulated impairment													
At 1 January 2014	0	0	0	0	0	0	0	0	0	0	0	0	0
Addition	0	0	0	0	0	0	0	0	0	34,068	0	0	34,068
At 31 December 2014	0	0	0	0	0	0	0	0	0	34,068	0	0	34,068
Net book value													
At 31 December 2014	7,045,757	797,793	15,778,134	16,214	900,711	421,040	113,530	333,653	2,841,737	28,393,404	4,718,348	931,220	62,291,541

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

Company	2015 RM	2014 RM
Motor vehicles		
At cost		
At 1 January	447,415	447,415
Disposals	(291,348)	0
At 31 December	156,067	447,415
Accumulated depreciation		
At 1 January	44,742	0
Current charge	27,746	44,742
Disposal	(41,274)	0
At 31 December	31,214	44,742
Net book value	124,853	402,673

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

	Group	
	2015 RM	2014 RM
Purchase of property, plant and equipment	27,962,069	9,173,284
Financed by hire purchase arrangements	(2,087,063)	(1,985,301)
Cash payments on purchase of property, plant and equipment	25,875,006	7,187,983

(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	
	2015 RM	2014 RM
Motor vehicles	3,863,343	2,601,980
Machinery and equipment	10,252,940	17,247,734
	14,116,283	19,849,714

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.

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

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

	Group 2015 RM	Group 2014 RM
Freehold land	7,056,749	7,045,757
Long term leasehold land	4,922,389	797,793
Factory building	20,451,797	13,269,691
Machinery and equipment	4,378,833	1,702,670
	36,809,768	22,815,911

8. INTANGIBLE ASSETS

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

8. INTANGIBLE ASSETS (CONT'D)

Group	Balance as at 1.1.2014 RM	Additions RM	Amortisation charge for the financial year RM	Balance as at 31.12.2014 RM
Carrying amount				
Goodwill	42,981	0	0	42,981
Development costs	280,668	903,010	(82,913)	1,100,765
Trademarks	1,297	0	(236)	1,061
	324,946	903,010	(83,149)	1,144,807

	[------At 31.12.2014------]		
	Cost RM	Accumulated amortisation RM	Carrying amount RM
Goodwill	42,981	0	42,981
Development costs	1,296,002	(195,237)	1,100,765
Trademarks	2,358	(1,297)	1,061
	1,341,341	(196,534)	1,144,807

9. INVESTMENTS IN SUBSIDIARIES

	Company	
	2015 RM	2014 RM
At cost		
Unquoted shares	17,680,000	16,430,004
Less: Impairment losses	(295,047)	0
	17,384,953	16,430,004

9. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Details of the subsidiaries are as follows:

Name of company	Country of incorporation	Effective interest in equity 2015 %	Effective interest in equity 2014 %	Principal activities
Heng Huat Industries Holdings Sdn. Bhd. ("HHIH")	Malaysia	100%	100%	Investment holding
Fibre Star Marketing Sdn. Bhd. ("FS Marketing")	Malaysia	100%	100%	Marketing of mattresses and related products
Fibre Star (M) Sdn. Bhd. ("Fibre Star")	Malaysia	100%	100%	Manufacturing and marketing 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.

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) An impairment loss on investments in subsidiaries amounting to RM295,047 relating to a subsidiary, Fibre Star Marketing Sdn. Bhd., has been recognised during the financial year. The recoverable amount was determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the management covering a five (5) years period. The discount rate applied to the cash flow projections was eleven percent (11%) based on the weighted average cost of capital of the Company.

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

	HK Palm	**Other individual immaterial subsidiary**	**Total**
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
2014			
NCI percentage of ownership interest and voting interest	50%		
Carrying amount of NCI (RM)	4,302,918	291,406	4,594,324
Profit allocated to NCI (RM)	2,225,548	66,802	2,292,350

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

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	
	2015	**2014**
	RM	**RM**
Assets and liabilities		
Non-current assets	7,981,453	8,772,539
Current assets	6,104,310	2,485,114
Non-current liabilities	(291,869)	(491,869)
Current liabilities	(3,996,832)	(2,159,949)
Net assets	9,797,062	8,605,835

	HK Palm	
	2015	**2014**
	RM	**RM**
Results		
Revenue	14,460,047	16,147,743
Profit for the financial year/Total comprehensive income	3,591,226	4,451,097
Cash flows from operating activities	3,120,200	3,186,678
Cash flows from investing activities	(957,889)	(1,842,744)
Cash flows from financing activities	(2,665,908)	(989,992)
Net (decrease)/ increase in cash and cash equivalents	(503,597)	353,942
Dividend paid to NCI	1,200,000	200,000

10. INVENTORIES

	Group 2015 RM	Group 2014 RM
At cost		
Raw materials	2,409,857	2,667,657
Work-in-progress	205,254	182,396
Packing materials	292,886	352,943
Finished goods	4,334,607	2,493,273
Spare parts	374,455	193,339
	7,617,059	5,889,608

During the financial year, inventories of the Group recognised as cost of sales amounted to RM33,165,931 (2014: RM40,577,576).

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Trade receivables	29,924,025	18,422,679	0	0
Less: Impairment losses	(483,357)	0	0	0
	29,440,668	18,422,679	0	0
Other receivables				
Amount owing by subsidiaries	0	0	19,579,017	5,588,301
Other receivables	292,993	1,232,266	48	0
Loans and receivables	29,733,661	19,654,945	19,579,065	5,588,301
Deposits and prepayments				
Deposits	250,742	570,207	1,100	1,000
Prepayments	1,806,441	1,345,302	6,853	0
	2,057,183	1,915,509	7,953	1,000
	31,790,844	21,570,454	19,587,018	5,589,301

(a) Trade receivables are non-interest bearing and the normal trade credit terms granted by the Group range from 30 to 120 days (2014: 30 to 120 days). They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

11. TRADE AND OTHER RECEIVABLES (CONT'D)

(b) Amount owing by subsidiaries were unsecured, interest-free and repayable on demand in cash and cash equivalents.

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

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RM	**RM**	**RM**	**RM**
Ringgit Malaysia	10,855,297	9,620,280	19,579,065	5,588,301
United States Dollar	11,872,946	5,554,470	0	0
Chinese Renminbi	6,989,775	4,480,195	0	0
Other foreign currencies	15,643	0	0	0
	29,733,661	19,654,945	19,579,065	5,588,301

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

	Group	
	2015	**2014**
	RM	**RM**
Neither past due nor impaired	15,243,611	13,887,656
Past due but not impaired		
1 to 30 days	2,578,007	3,301,963
31 to 60 days	3,019,557	553,677
61 to 90 days	2,795,858	440,707
90 to 120 days	1,884,446	86,805
More than 121 days	3,435,832	151,871
	13,713,700	4,535,023
Past due and impaired	483,357	0
	29,440,668	18,422,679

<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.

11. TRADE AND OTHER RECEIVABLES (CONT'D)

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

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to RM13,713,700 (2014: RM4,535,023) 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.

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

	Group	
	2015 RM	**2014 RM**
At 1 January	0	0
Charge for the financial year (Note 27)	483,357	0
At 31 December	483,357	0

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.

12. CASH AND BANK BALANCES

	Group		Company	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Cash and bank balances	8,108,792	15,455,135	209,763	9,708,965
Deposits with licensed banks	2,360,359	2,211,353	0	0
	10,469,151	17,666,488	209,763	9,708,965

12. CASH AND BANK BALANCES (CONT'D)

(a) For the purpose of the statements of cash flows, cash and cash equivalents comprise the following as at the end of the reporting period:

	Group		Company	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Cash and bank balances	8,108,792	15,455,135	209,763	9,708,965
Deposits with licensed banks	2,360,359	2,211,353	0	0
	10,469,151	17,666,488	209,763	9,708,965
Less:				
Deposits pledged to licensed banks	(2,360,359)	(2,211,353)	0	0
Bank overdrafts included in borrowings (Note 15)	(3,449,291)	(242,342)	0	0
	4,659,501	15,212,793	209,763	9,708,965

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

	Group		Company	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Ringgit Malaysia	7,737,938	16,974,520	209,763	9,708,965
United States Dollar	2,019,781	457,564	0	0
Chinese Renminbi	707,770	232,069	0	0
Other foreign currencies	3,662	2,335	0	0
	10,469,151	17,666,488	209,763	9,708,965

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

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

13. SHARE CAPITAL

	Group and Company			
	2015		2014	
	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	205,800,030	20,580,003	159,300,030	15,930,003
Issued for cash pursuant to				
- public issue	0	0	46,500,000	4,650,000
- bonus issue	102,900,015	10,290,002	0	0
Balance as at 31 December	308,700,045	30,870,005	205,800,030	20,580,003

(a) During the 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	
	2015 RM	2014 RM	2015 RM	2014 RM
Non-distributable:				
Share premium	5,454,124	15,863,041	5,454,124	15,863,041
Reorganisation debit	(5,185,000)	(5,185,000)	0	0
	269,124	10,678,041	5,454,124	15,863,041
Distributable:				
Retained earnings/(Accumulated losses)	44,651,569	36,880,365	354,110	(4,310,105)
	44,920,693	47,558,406	5,808,234	11,552,936

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 2015 RM	Group 2014 RM
Current liabilities		
Term loans (Note 16)	1,972,890	2,507,399
Hire purchase creditors (Note 17)	3,404,962	2,916,871
Bankers' acceptances	10,118,000	3,768,000
Bank overdrafts (Note 18)	3,449,291	242,342
	18,945,143	9,434,612
Non-current liabilities		
Term loans (Note 16)	10,131,721	10,642,583
Hire purchase creditors (Note 17)	3,810,776	4,851,127
	13,942,497	15,493,710
Total borrowings		
Term loans (Note 16)	12,104,611	13,149,982
Hire purchase creditors (Note 17)	7,215,738	7,767,998
Bankers' acceptances	10,118,000	3,768,000
Bank overdrafts (Note 18)	3,449,291	242,342
	32,887,640	24,928,322

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

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.

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) guarantee by external credit guarantee providers (namely Syarikat Jaminan Pembiayaan Perniagaan Berhad);

(iv) a debenture having a fixed charges over the Group's machinery and equipment as disclosed in Note 7(c) to the financial statements;

(v) corporate guarantee provided by the Company and subsidiaries; and

(vi) 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	
	2015	**2014**
	RM	**RM**
Minimum hire purchase payments		
- not later than one (1) year	3,867,386	3,334,172
- later than one (1) year and not later than five (5) years	3,860,365	5,157,817
Total minimum hire purchase payments	7,727,751	8,491,989
Less: Future interest charges	(512,013)	(723,991)
Present value of hire purchase payments	7,215,738	7,767,998
Repayable as follows:		
Current liabilities:		
- not later than one (1) year	3,404,962	2,916,871
Non-current liabilities:		
- later than one (1) year and not later than five (5) years	3,810,776	4,851,127
	7,215,738	7,767,998

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

18. BANK OVERDRAFTS

The bank overdrafts of the Group are secured by:

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

19. DEFERRED TAX LIABILITIES

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

	Group		Company	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
At 1 January	682,395	1,102,634	0	0
Recognised in profit or loss (Note 28):				
- current year	203,635	5,837	88,100	0
- under/(over)provision in prior years	8,775	(426,076)	7,500	0
At 31 December	894,805	682,395	95,600	0
Deferred tax liabilities				
Property, plant and equipment	894,805	682,395	95,600	0

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

	Group		Company	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Property, plant and equipment	225,760	110,880	10,000	0
Unused tax losses	2,339,200	1,033,360	593,200	0
	2,564,960	1,144,240	603,200	0
Subject to income tax:				
Deferred tax assets (before offsetting)				
Property, plant and equipment	2,016,360	202,710	10,000	0
Unused tax losses	2,339,200	1,033,360	593,200	0
	4,355,560	1,236,070	603,200	0
Offsetting	(1,790,600)	(91,830)	0	0
Deferred tax assets (after offsetting)	2,564,960	1,144,240	603,200	0
Deferred tax liabilities (before offsetting)				
Property, plant and equipment	1,790,600	91,830	0	0
Offsetting	(1,790,600)	(91,830)	0	0
Deferred tax liabilities (after offsetting)	0	0	0	0

19. DEFERRED TAX LIABILITIES (CONT'D)

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

Deferred tax assets of certain companies within the Group have not been recognised in respect of these items as it is not probable that taxable profits of these companies would be available against which the deductible temporary differences would be utilised.

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

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Trade payables				
Third parties	4,808,156	3,079,358	0	0
Amounts owing to related parties	195,792	979	0	0
	5,003,948	3,080,337	0	0
Other payables				
Amount owing to a related party	52,554	4,282	0	0
Amount owing to subsidiaries	0	0	400,545	0
Other payables	10,075,140	4,875,422	104,947	8,804
Accruals	2,943,575	2,487,009	40,000	4,200
	13,071,269	7,366,713	545,492	13,004
	18,075,217	10,447,050	545,492	13,004

(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 (2014: 30 to 90 days).

(c) Amounts owing to all related parties are unsecured, interest-free and payable upon demand in cash and cash equivalents.

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

(e) Amount owing to subsidiaries is unsecured, interest-free 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.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2015		2014	
Group	**Contract amount RM**	**Liability RM**	**Contract amount RM**	**Liability RM**
Forward currency contract	3,161,600	108,302	4,475,935	213,593

(a) Forward currency contracts have been entered into operationally hedge forecast sales denominated in foreign currencies that are expected to occur at various dates within two (2) 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 forward rates and the market rate.

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

	2015 RM	**2014 RM**
Loss on derivative liability	108,302	213,593

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:

	2015 RM	**2014 RM**
Not later than one (1) year	494,000	384,000
Later than one (1) year and not later than five (5) years	336,000	720,000
	830,000	1,104,000

(b) Capital commitments

	2015 RM	**2014 RM**
Capital expenditure in respect of purchase of property, plant and equipment:		
Approved but not contracted for	8,818,301	3,200,000
Contracted but not provided for	13,169,284	3,303,000
	21,987,585	6,503,000

23. CONTINGENT LIABILITIES

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Corporate guarantee given to banks for credit facilities granted to subsidiaries - unsecured	69,346,000	40,956,000	57,420,000	24,630,000

The Directors are of the opinion that the chances of the financial institutions calling upon the corporate guarantees are remote.

24. REVENUE

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Sale of goods	91,016,360	91,660,196	0	0
Dividend income from a subsidiary	0	0	7,000,000	0
	91,016,360	91,660,196	7,000,000	0

25. COST OF SALES

	Group	
	2015 RM	2014 RM
Cost of goods sold	54,496,856	52,359,974

26. FINANCE COSTS

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Bank charges	82,707	38,154	0	0
Interest expenses on:				
- bank overdrafts	117,970	92,127	0	0
- term loans	688,132	905,611	0	0
- hire purchase	392,260	828,255	0	0
- bankers' acceptance	332,828	275,769	0	0
Other finance charges	0	118	0	118
	1,613,897	2,140,034	0	118

27. PROFIT/(LOSS) BEFORE TAX

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Profit/(Loss) before tax is arrived at after charging:				
Amortisation of intangible assets				
- development costs (Note 8)	342,771	82,913	0	0
- trademarks (Note 8)	236	236	0	0
Auditors' remuneration				
- current year	90,050	84,500	22,950	13,000
- underprovision in prior years	949	5,900	949	0
Bad debts written off	84,600	8,468	0	0
Depreciation of property, plant and equipment (Note 7)	6,999,464	5,897,475	27,746	44,742
Directors' remuneration paid and payable to the Directors of the Company:				
Directors' fees				
- payable by the Company	123,600	88,000	123,600	88,000
Other emoluments				
- paid by the subsidiaries	3,014,305	2,096,663	0	0
Fair value adjustment on derivative liability (Note 21)	0	213,593	0	0
Impairment losses on:				
- investments in subsidiaries (Note 9)	0	0	295,047	0
- trade receivables (Note 11)	483,357	0	0	0
- property, plant and equipment (Note 7)	0	34,068	0	0
Listing expenses	88,266	1,873,969	88,266	1,873,969
Loss on disposal of property, plant and equipment	578,280	0	0	0
Property, plant and equipment written off (Note 7)	0	76,017	0	0
Rental of factory	106,800	72,000	0	0
Rental of hostel	29,783	17,600	0	0
Rental of warehouse	343,500	424,600	0	0
Rental of land	110,000	0	0	0
Realised loss on foreign exchange	0	213,967	0	0

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

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Profit/(Loss) before tax is arrived at after charging: (Cont'd)				
and crediting:				
Gain on disposal of property, plant and equipment	0	72,455	0	0
Fair value adjustment on derivative liability (Note 21)	105,291	0	0	0
Realised gain on foreign exchange	1,521,885	38,538	0	0
Unrealised gain on foreign exchange	843,765	575,139	0	0
Interest income	160,848	167,206	60,390	95,367
Dividend income	0	0	7,000,000	0
Hostel rental received	48,102	0	0	0

28. TAX EXPENSE

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Current tax expense based on profit for the financial year	478,782	751,918	0	0
(Over)/Underprovision in prior years	(5,792)	36,332	0	0
	472,990	788,250	0	0
Deferred tax (Note 19):				
Relating to origination and reversal of temporary differences	203,635	5,837	88,100	0
Under/(Over)provision in prior years	8,775	(426,076)	7,500	0
	212,410	(420,239)	95,600	0
Total tax expense	685,400	368,011	95,600	0

(a) The Malaysian income tax is calculated at the statutory tax rate of 25% (2014: 25%) of the estimated taxable profits for the fiscal year. The Malaysian statutory tax rate will be reduced to twenty-four percent (24%) for the fiscal year of assessment 2016 onwards.

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	
	2015 RM	2014 RM	2015 RM	2014 RM
Profit/(Loss) before tax	11,346,429	12,939,538	5,788,815	(2,210,708)
Tax at Malaysian statutory tax rate of 25% (2014: 25%)	2,836,607	3,234,885	1,447,200	(552,700)
Tax effects in respect of:				
- expenses not deductible for tax purposes	759,730	851,889	255,200	0
- different tax rate for first RM500,000 of chargeable income	(25,000)	(25,000)	0	0
- income not subject to tax	(3,244,100)	(3,454,519)	(1,765,100)	484,700
Deferred tax assets not recognised during the financial year	355,180	150,500	150,800	68,000
(Over)/Underprovision of tax expense in prior years	(5,792)	36,332	0	0
Under/(Over)provision of deferred tax in prior years	8,775	(426,076)	7,500	0
Tax expense for the financial year	685,400	368,011	95,600	0

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

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

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

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

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 2015	Group 2014
Profit attributable to equity holders of parent	(RM)	8,800,204	10,279,177
Weighted average number of ordinary shares in issue	(units)	205,800,030	159,300,030
Effects of:			
- bonus issue		47,644,117	0
- public issue		0	20,383,562
Adjusted weighted average number of ordinary applicable to basic earnings as per ordinary shares		253,444,147	179,683,592
Basic earnings per ordinary share:			
Profit for the financial year	(sen)	3.47	5.72

(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

The Directors do not recommend any payment of final dividend for the current financial year.

31. EMPLOYEE BENEFITS

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Wages, salaries and bonuses	24,973,039	16,946,315	127,750	88,000
Contribution to defined contribution plan	1,042,989	860,410	0	0
Social security contributions	92,759	86,179	0	0
Other benefits	119,247	159,865	9,328	0
	26,228,034	18,052,769	137,078	88,000

Included in the employee benefits of the Group and of the Company are Directors' remuneration amounting to RM3,137,905 (2014: RM2,184,663) and RM123,600 (2014: RM88,000) 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 parties.

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

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

	Group		Company	
	2015 RM	2014 RM	2015 RM	2014 RM
Related companies:				
- Rental paid and payable	504,000	480,000	0	0
- Purchase of raw material	695,382	407,431	0	0
Advances to subsidiaries				
- Fibre Star (M) Sdn. Bhd.	0	0	1,809,000	1,000,000
- Fibre Star Marketing Sdn. Bhd.	0	0	0	1,500,000
- HK Gua Musang Sdn. Bhd.	0	0	3,350,757	20,000
- HK Power Sdn. Bhd.	0	0	1,249,998	0
- HK Kitaran Sdn. Bhd.	0	0	8,821,300	0
Advances from a subsidiary				
- HK Fibre Sdn. Bhd.	0	0	400,000	0
- HK Kitaran Sdn. Bhd.	0	0	0	800,000

32. RELATED PARTY DISCLOSURES (CONT'D)

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

The related party transactions described above were carried out on terms and conditions not materially different from those obtainable from transactions with unrelated parties.

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

(c) Compensation of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any Director (whether executive or otherwise) of the Group and the Company.

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

	Group		Company	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Short term employee benefits	5,047,664	3,541,737	123,600	88,000
Contributions to defined contribution plan	603,949	334,700	0	0
Social security contribution	16,329	37,636	0	0
	5,667,942	3,914,073	123,600	88,000

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 2015 and 31 December 2014.

The Group is not subject to any externally imposed capital requirements during the financial years ended 31 December 2015 and 31 December 2014.

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	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Borrowings (Note 15)	32,887,640	24,928,322	0	0
Trade and other payables (Note 20)	18,075,217	10,447,050	545,492	13,004
	50,962,857	35,375,372	545,492	13,004
Less:				
Cash and bank balances (Note 12)	(10,469,151)	(17,666,488)	(209,763)	(9,708,965)
Net debt/(cash)	40,493,706	17,708,884	335,729	(9,695,961)
Total capital	75,790,698	68,138,409	36,678,239	32,132,939
Net debt/(cash)	40,493,706	17,708,884	335,729	(9,695,961)
Equity	116,284,404	85,847,293	37,013,968	22,436,978
Gearing ratio (%)	**35**	**21**	**1**	*****

* Gearing ratio is not presented as the Company was in a net cash position as at 31 December 2014.

Pursuant to the requirements of Guidance Note No. 3/2006 of the Bursa Malaysia Securities, the Group is required to maintain a shareholders' equity equal to or not less than the 25% of the issued and paid-up capital of the Company.

In addition, the Group shall not incur loss in any one (1) full financial year which is equal to or exceed the amount of its shareholders' equity and is required to maintain a shareholders' equity which is equal to or not less than 50% of the issued and paid-up capital. Where the Group has incurred aggregated losses in any two (2) consecutive full financial years, the losses shall not exceed the amount of its shareholders' equity at the end of the financial period and the loss incurred in the second full financial year shall not be 50% or more of the loss incurred in the first full financial year of the financial said period. The Group is also required to maintain a shareholders' equity which is equal or not less than 50% of the issued and paid-up share capital.

The Company has complied with these requirements for the financial year ended 31 December 2015.

The Group is not subject to any other externally imposed capital requirements.

33. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial instruments

	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

	Other financial liabilities RM	Fair value through profit or loss RM	Total RM
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
Derivatives (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

33. FINANCIAL INSTRUMENTS (CONT'D)

(b) Financial instruments (Cont'd)

Group	Loans and receivables RM
31 December 2014	
Financial assets	
Trade and other receivables (excludes prepayments) (Note 11)	20,225,152
Cash and bank balances (Note 12)	17,666,488
	37,891,640

	Other financial liabilities RM	Fair value through profit or loss RM	Total RM
Financial liabilities			
Trade and other payables (Note 20)	10,447,050	0	10,447,050
Borrowings (Note 15)	24,928,322	0	24,928,322
Derivatives (Note 21)	0	213,593	213,593
	35,375,372	213,593	35,588,965

Company	Loans and receivables RM
31 December 2014	
Financial assets	
Trade and other receivables (excludes prepayments) (Note 11)	5,589,301
Cash and bank balances (Note 12)	9,708,965
	15,298,266

Company	Other financial liabilities RM
Financial liability	
Trade and other payables (Note 20)	13,004

33. FINANCIAL INSTRUMENTS (CONT'D)

(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 values

The carrying amounts of financial assets and financial liabilities, such as trade and other receivables, trade and other payables and borrowings, are reasonable approximation of fair value, either due to their short-term nature or that they are floating rate instruments that are re-priced at market interest rates on or near the end of the reporting period.

The carrying amounts of the current position of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

(ii) Hire purchase 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) 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 contracted rate and the forward exchange 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 contractual forward price and the current forward price 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. For other 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).

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	Carrying
Group	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	Level 1 RM	Level 2 RM	Level 3 RM	Total RM	value RM	amount RM
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
2014										
Financial liabilities										
Financial liabilities at fair value through profit or loss										
- Forward currency contract	0	213,593	0	213,593	0	0	0	0	213,593	213,593
Other financial liability										
- Hire purchase creditors	0	0	0	0	0	7,578,140	0	7,578,140	7,578,140	7,767,998
	0	213,593	0	213,593	0	7,578,140	0	7,578,140	7,791,733	7,981,591

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. The trading terms of the Group with its customers are mainly on credit, except for new customers, where deposits in advance are normally required. The credit period ranges between 30 days to 120 days. Each customer has a maximum credit limit and the Group seeks to maintain strict control over its outstanding receivables via a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

Major classes of financial assets of the Group comprise trade and other receivables and cash and cash equivalents.

Bank balances and deposits with banks and other financial institutions possessed by the Group are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

Exposure to credit risk

At the end of each reporting period, the maximum exposure of the Group to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring the country profiles of its trade receivables on an ongoing basis. The credit risk concentration profile of the trade receivables of the Group at the end of each reporting period are as follows:

	Group			
	2015		2014	
	RM	% of total	RM	% of total
By country				
Malaysia	11,061,304	36.96%	8,388,014	45.53%
People's Republic of China	18,862,721	63.04%	10,034,665	54.47%
	29,924,025	100.00%	18,422,679	100.00%

At the end of the reporting period, approximately 26% (2014: 45%) of the trade receivables of the Group were due from one (2014: one) major customer located in the People's Republic of China.

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, investment securities and derivatives that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are past due but not impaired

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

(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 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
Derivatives (Note 21)	108,302	0	0	108,302
Total undiscounted financial liabilities	37,992,072	12,821,156	3,112,773	53,926,001
As at 31 December 2014				
Financial liabilities				
Trade and other payables (Note 20)	10,447,050	0	0	10,447,050
Borrowings (Note 15)	10,718,386	13,758,382	4,580,323	29,057,091
Derivatives (Note 21)	213,593	0	0	213,593
Total undiscounted financial liabilities	21,379,029	13,758,382	4,580,323	39,717,734

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	Total RM
As at 31 December 2015			
Financial liability			
Trade and other payables (Note 20)	545,492	0	545,492
Total undiscounted financial liability	545,492	0	545,492
As at 31 December 2014			
Financial liability			
Trade and other payables (Note 20)	13,004	0	13,004
Total undiscounted financial liability	13,004	0	13,004

(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	
	2015 RM	2014 RM
Profit after tax		
Increase 10 basis points (2013: 10 basis point)	(22,895)	(20,235)
Decrease 10 basis points (2013: 10 basis point)	22,895	20,235

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 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
At 31 December 2014									
Fixed rates									
Deposits with licensed banks	12	3.18	2,211,353	0	0	0	0	0	2,211,353
Hire purchase and lease creditors	17	6.38	2,916,871	2,595,201	1,713,091	542,835	0	0	7,767,998
Floating rates									
Bank overdrafts	18	8.19	242,342	0	0	0	0	0	242,342
Bankers' acceptance	15	5.05	3,768,000	0	0	0	0	0	3,768,000
Term loans	16	6.85	2,507,399	2,346,936	1,720,191	1,432,039	1,494,674	3,648,743	13,149,982

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 East Asia customer. These sales are priced in Ringgit Malaysia but invoiced in the currencies of the customers involved.

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the profit after tax of the Group to a reasonably possible changes in the RMB and USD exchange rates against the functional currency of the Company with all the other variables held constant:

		Group	
		2015 RM	**2014 RM**
Profit after tax			
USD/RM	- strengthen by 5% (2014: 5%)	(520,977)	(222,177)
	- weaken by 5% (2014: 5%)	520,977	222,177
RMB/RM	- strengthen by 5% (2014: 5%)	(288,658)	(176,669)
	- weaken by 5% (2014: 5%)	288,658	176,669
Other/RM	- strengthen by 5%	(724)	0
	- weaken by 5%	724	0

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 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

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

(iv) Foreign currency risk (Cont'd)

Sensitivity analysis for foreign currency risk (Cont'd)

The notional amount and maturity date of the forward foreign exchange contracts outstanding as at 31 December 2014 are as follows:

Contract	Expiry dates	Contract amounts USD	RM equivalent
Contracts used to hedge trade receivables	18 March 2015	100,000	324,380
	19 March 2015	200,000	653,200
	23 March 2015	200,000	649,600
	10 April 2015	40,000	130,160
	17 April 2015	200,000	667,400
	7 May 2015	50,000	168,000
	11 May 2015	40,000	131,080
	10 June 2015	50,000	165,300
	24 June 2015	200,000	705,200
	30 June 2015	250,000	881,615
			4,475,935

35. OPERATING SEGMENTS

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

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.

35. OPERATING SEGMENTS (CONT'D)

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.

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**
Tax expenses	558,393	31,407	95,600	685,400
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**

35. OPERATING SEGMENTS (CONT'D)

2014

	Biomass materials and related products RM	Mattresses and related products RM	Investment holdings and others RM	Total RM
Revenue				
Total revenue	73,043,375	37,136,363	0	110,179,738
Inter-segment revenue	(3,498,445)	(15,021,097)	0	(18,519,542)
Revenue from external customers	69,544,930	22,115,266	0	91,660,196
Interest income	46,173	25,428	95,605	167,206
Finance costs	(1,878,426)	(261,490)	(118)	(2,140,034)
Net finance expense	(1,832,253)	(236,062)	95,487	(1,972,828)
Depreciation	5,443,336	398,505	55,634	5,897,475
Amortisation	82,913	236	0	83,149
Segment profit/(loss) before tax	**15,416,127**	**(41,333)**	**(2,352,114)**	**13,022,680**
Tax expenses	(99,884)	(268,127)	0	(368,011)
Additions to non-current assets other than financial instruments and intangible assets	8,373,301	799,983	0	9,173,284
Segment assets	**82,590,734**	**14,929,248**	**11,042,916**	**108,562,898**
Segment liabilities	**29,515,540**	**6,019,073**	**54,352**	**35,588,965**

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:

	2015 RM	2014 RM
Revenue		
Total revenue for reportable segments	116,263,593	110,179,738
Elimination of inter-segmental revenues	(25,247,233)	(18,519,542)
Revenue of the Group per consolidated statement of profit or loss and other comprehensive income	91,016,360	91,660,196
Profit for the financial year		
Profit before tax for reportable segments	26,185,691	13,022,680
Elimination of inter-segment profits	(14,839,262)	(83,142)
Profit before tax	11,346,429	12,939,538
Tax expense	(685,400)	(368,011)
Profit for the financial year of the Group per consolidated statement of profit or loss and other comprehensive income	10,661,029	12,571,527
Assets		
Total assets for reportable segments	132,269,692	108,562,898
Tax assets	742,119	451,990
Assets of the Group per consolidated statement of financial position	133,011,811	109,014,888

35. OPERATING SEGMENTS (CONT'D)

(a) Reconciliations (Cont'd)

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

	2015 RM	2014 RM
Liabilities		
Total liabilities for reportable segments	51,071,159	35,588,965
Tax liabilities	894,805	693,190
Liabilities of the Group per consolidated statement of financial position	51,965,964	36,282,155

(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 from which the sale transactions originated.

All the assets and liabilities of the Group are derived from Malaysia. Hence, no additional disclosure is made on geographical breakdown/ details of the segment assets of the Group.

	2015 RM	2014 RM
Revenue from external customers		
Malaysia	42,475,092	38,277,559
China	48,329,457	53,346,798
Singapore	211,811	35,839
	91,016,360	91,660,196

(c) Major customer

Revenue from a customer in the biomass materials and related products segment accounted for approximately 10.39% (2014: 23.82%) of the Group's total revenue.

36. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(i) 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.

(ii) a wholly-owned subsidiary of the Company, HK Power Sdn. Bhd. has 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 for a cash consideration of RM8,810,000.

37. SUPPLEMENTARY INFORMATION ON REALISED AND UNREALISED LOSSES

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

	Group		Company	
	2015 RM	**2014 RM**	**2015 RM**	**2014 RM**
Total retained earnings/(accumulated losses) of Heng Huat Resources Group Berhad and its subsidiaries				
- Realised	54,837,642	46,738,682	354,110	(4,310,105)
- Unrealised	(159,343)	(131,674)	0	0
	54,678,299	46,607,008	354,110	(4,310,105)
Less: Consolidation adjustments	(10,026,730)	(9,726,643)	0	0
Total retained earnings/ (accumulated losses)	44,651,569	36,880,365	354,110	(4,310,105)

ANALYSIS OF SHAREHOLDINGS

AS AT 31 MARCH 2016

Authorised Share Capital	:	RM50,000,000 dividend into 500,000,000 ordinary shares of RM0.10 each
Issued and Paid-up Share Capital	:	RM30,870,004.50 comprise 308,700,045 ordinary shares of RM0.10 each
Class of Shares	:	Ordinary shares of RM0.10 each
Voting Rights	:	One vote per ordinary share

DISTRIBUTION SCHEDULE OF SHAREHOLDERS

SIZE OF HOLDINGS			NO. OF HOLDERS	%	NO. OF SHARES	%
1	-	99	64	2.27	3,030	0.00
100	-	1,000	135	4.79	77,334	0.03
1,001	-	10,000	1,184	42.05	7,725,550	2.50
10,001	-	100,000	1,260	44.74	43,238,850	14.01
100,001	-	15,435,001 (*)	169	6.00	92,030,477	29.81
15,435,002	-	AND ABOVE (**)	4	0.14	165,624,804	53.65
		TOTAL	**2,816**	**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 2016

No.	Name	HOLDINGS	%
1	KENANGA CAPITAL SDN BHD PLEDGED SECURITIES ACCOUNT FOR H'NG CHOON SENG	75,000,000	24.30
2	AMSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR H'NG CHOON SENG	28,000,000	9.07
3	KEE SWEE LAI	23,647,499	7.66
4	KEE SWEE LAI	21,577,305	6.99
5	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KEE SWEE LAI	17,400,000	5.64
6	HENG HUAT MANUFACTURER SDN BHD	12,375,000	4.01
7	H'NG CHOON SENG	7,091,374	2.29
8	RHB NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM GHIM CHAI	5,500,000	1.78
9	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR KHOR MOOI KIM (6000331)	5,000,000	1.62
10	ALLIANCEGROUP NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEH CHAI LUANG (6000327)	5,000,000	1.62

LIST OF 30 LARGEST SHAREHOLDERS AS AT 31 MARCH 2016 (CONT'D)

No.	Name	HOLDINGS	%
11	TEH CHAI LUANG	2,404,780	0.78
12	CIMSEC NOMINEES (TEMPATAN) SDN BHD CIMB FOR LIM KA KIAN (PB)	2,330,000	0.75
13	KHOR MOOI KIM	1,768,570	0.57
14	KHOR TEIK BOON	1,719,000	0.56
15	CHEONG KOK CHOY	1,600,000	0.52
16	MAYBANK NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR TEOH WOOI HANG	1,565,300	0.51
17	UOB KAY HIAN NOMINEES (TEMPATAN) SDN BHD EXEMPT AN FOR UOB KAY HIAN PTE LTD (A/C CLIENTS)	1,482,200	0.48
18	TAN LAI TEOW	1,200,000	0.39
19	GOH KAY CHUAN	1,100,000	0.36
20	NG KENG HUAT	1,030,000	0.33
21	H'NG LEE MOOI	1,009,500	0.33
22	MERCSEC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR SIOW WONG YEN @ SIOW KWANG HWA	900,000	0.29
23	ONG CHIN CHAI	840,000	0.27
24	YONG HAI WIE	775,000	0.25
25	LIM KA KIAN	744,000	0.24
26	CHONG MOO LING	733,000	0.24
27	KEE SWEE BOON	700,000	0.23
28	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR OON MING CHEAH (E-TAI/TIN)	691,500	0.22
29	PUBLIC NOMINEES (TEMPATAN) SDN BHD PLEDGED SECURITIES ACCOUNT FOR LIM LEE HUANG (E-BMM)	660,000	0.21
30	TEOH BOON BENG @ TEOH ENG KUAN	650,000	0.21
	TOTAL	**224,494,028**	**72.72**

DIRECTORS' SHAREHOLDINGS
AS PER THE REGISTER OF DIRECTORS' SHAREHOLDINGS AS AT 31 MARCH 2016

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**% of Shares**	**No. of Shares**	**% of Shares**
H'ng Choon Seng	110,091,377	35.66	12,375,000*	4.01
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	5,500,000	1.78	-	-
Lo Liang Kheng	85,000	0.03	-	-

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

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

SUBSTANTIAL SHAREHOLDERS
AS PER THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 31 MARCH 2016

	Direct Interest		Indirect Interest	
Name	**No. of Shares**	**% of Shares**	**No. of Shares**	**% of Shares**
H'ng Choon Seng	110,091,377	35.66	12,375,000*	4.01
Kee Swee Lai	62,624,804	20.29	-	-

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

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 2015 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/ 6 years	239,580/ 78,000	9,303	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/ 4 years	178,160/ 80,000	8,368	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/ 3 years	69,696/ 30,000	2,909	11.05.2012

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 2015 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	A portable cabin office and a single storey detached factory/Used for coconut fibre, coconut peat and coconut fibre sheets manufacturing	99 years, Expiring on 18.08.2096/ 9 years	89,690/ 40,483	1,436	24.04.2012
HK Gua Musang	Title: PN 1828, Lot 551 Bandar Gua Musang Jajahan Gua Musang Kelantan Darul Naim ("Plant 7")	Double storey office annexed with a single storey detached factory/Used for oil palm EFB fibre manufacturing	66 years, Expiring on 24.07.2051/ Under construction with estimated completion date Q3 2016	478,574/ 152,460	8,246	19.08.2015

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fifth 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, Lot 414, MK 6, Jalan Paya Kemian Sempayi, 14200 Sungai Jawi, Seberang Perai Selatan, Pulau Pinang on Wednesday, 15 June 2016 at 11.00 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 2015 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 2015. **Ordinary Resolution 1**

3. To re-elect the following Directors retiring pursuant to Article 81 of the Company's Articles of Association and who, being eligible, offer themselves for re-election:

(i) Ms. Khor Mooi Kim **Ordinary Resolution 2**

(ii) Mr. Ng Boon Kang **Ordinary Resolution 3**

(iii) Mr. Lo Liang Kheng **Ordinary Resolution 4**

4. To re-appoint Messrs. BDO as Auditors of the Company until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration. **Ordinary Resolution 5**

AS SPECIAL BUSINESS

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

5. AUTHORITY UNDER SECTION 132D OF THE COMPANIES ACT, 1965 FOR THE DIRECTORS TO ISSUE SHARES

"THAT, subject always to the Companies Act, 1965 ("the Act"), the Articles of Association of the Company and the approvals of the relevant government and/or regulatory authorities, the Directors be and are hereby authorised, pursuant to Section 132D 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 issued share capital 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 6**

6. **PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE ("PROPOSED RENEWAL OF 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 29 April 2016, provided that such transactions are necessary for the day-to-day operations; and undertaken in the ordinary course of business, on arm's length basis, on normal commercial terms which are not more favourable to the related party than those generally available to the public and are not detrimental to the minority shareholders of the Company.

   THAT such approval shall continue to be in force until:

   (a) the conclusion of the next Annual General Meeting ("AGM") of the Company following the general meeting at which such mandate was passed, at which time it will lapse, unless by a resolution passed at the AGM, the authority is renewed;

   (b) the expiration of the period within which the next AGM of the Company after that date is required to be held pursuant to Section 143(1) of the Companies Act, 1965 ("Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) 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 Renewal of Shareholders' Mandate." **Ordinary Resolution 7**

7. To transact any other business of which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 1965.

By Order of the Board

OOI YOONG YOONG (MAICSA 7020753)
Secretary
Penang
29 April 2016

Note:

Appointment of Proxy

1. A member of the Company entitled to attend and vote is entitled to appoint any person as his proxy to attend and vote in his stead. There is no restriction as to the qualification of the proxy. Section 149(1)(b) & (c) of the Act shall not apply to the Company.

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 8 June 2016 shall be entitled to attend this Annual General Meeting or appoint proxies to attend, speak and/or vote on his/her behalf.

Special Business

7. **Ordinary Resolution 6 - Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares**

   The proposed Ordinary Resolution 6, if passed, will give authority to the Board of Directors to issue and allot ordinary shares from the unissued capital of 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.

   This is a new mandate and it 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.

8. **Ordinary Resolution 7 - Proposed Renewal Of Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature ("Proposed Renewal Of 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 pursuant to Section 143(2) of the Companies Act, 1965) or revoked/varied by resolution passed by the shareholders in general meeting whichever is the earlier.

   Please refer to the Circular to Shareholders dated 29 April 2016 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/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 Fifth Annual General Meeting (5th AGM) of the Company, to be held at Majestic Hall, 1st Floor, Bukit Jawi Golf Resort, Lot 414, MK 6, Jalan Paya Kemian Sempayi, 14200 Sungai Jawi, Seberang Perai Selatan, Pulau Pinang on Wednesday, 15 June 2016 at 11.00 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/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 5th 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%

In case of a vote taken by a show of hands, *First Proxy "A"/*Second Proxy "B" shall vote on my/our behalf.
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 2015.				
2.	To re-elect Ms. Khor Mooi Kim as Director of the Company				
3.	To re-elect Mr. Ng Boon Kang as Director of the Company				
4.	To re-elect Mr. Lo Liang Kheng as Director of the Company				
5.	To re-appoint Messrs. BDO as Auditors of the Company and to authorize the Directors to fix their remuneration.				
6.	Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares				
7.	Proposed Renewal of 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___________

Signature of Member______________________

Number of shares held

Notes:
1. A member of the Company entitled to attend and vote is entitled to appoint any person as his proxy to attend and vote in his stead. There is no restriction as to the qualification of the proxy. Section 149(1)(b) & (c) of the Act shall not apply to the Company.
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)
No. 2945 (Plot A2), Jalan Sungai Baong,
Kawasan Perindustrian Perabut Sungai Baong,
MK 5, 14200 Sungai Bakap, Seberang Perai Selatan,
Pulau Pinang, Malaysia.
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Website : www.henghuat.com.my

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