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Heng Hup Holdings Limited

興合控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1891)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2019 amounted to RM990.6 million, representing an increase of 10.8% from RM894.4 million recorded in 2018.
- Gross profit for the year ended 31 December 2019 amounted to RM50.4 million, representing a decrease of 13.7% from RM58.4 million recorded in 2018.
- Profit attributable to owners of the Company for the year ended 31 December 2019 amounted to RM6.7 million, representing a decrease of 72.8% from RM24.6 million in 2018.
- The equity attributable to owners of the Group as at 31 December 2019 amounted to RM175.9 million, representing an increase of 49.8% from RM117.4 million in 2018.
- The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2019 (2018: Nil).

In this announcement, “we”, “us”, “our” and “Heng Hup” refer to the Company (as defined below) and where the context otherwise requires, the Group (as defined below).

The board (the “**Board**”) of directors (the “**Directors**”) of Heng Hup Holdings Limited 興合控股有限公司 (the “**Company**”) is pleased to announce the annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RM'000	2018 RM'000
Revenue	3	990,604	894,405
Cost of sales	6	<u>(940,252)</u>	<u>(836,011)</u>
Gross profit		50,352	58,394
Other income	4	85	129
Other (losses)/gains, net	5	(827)	9,387
Distribution and selling expenses	6	<u>(19,402)</u>	<u>(11,234)</u>
Administrative expenses	6	<u>(17,165)</u>	<u>(24,198)</u>
Operating profit		13,043	32,478
Finance income	7	543	433
Finance costs	7	<u>(724)</u>	<u>(638)</u>
Finance costs, net	7	(181)	(205)
Share of results of an associate		<u>(976)</u>	<u>–</u>
Profit before income tax		11,886	32,273
Income tax expenses	8	<u>(5,214)</u>	<u>(7,651)</u>
Net profit and total comprehensive income for the year attributable to owners of the Company		<u>6,672</u>	<u>24,622</u>
Earnings per share attributable to owners of the Company for the year (expressed in sen per share)			
– Basic earnings per share	10	0.70	3.28
– Diluted earnings per share	10	<u>0.70</u>	<u>3.28</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 RM'000	2018 RM'000
ASSETS			
Non-current assets			
Investment in an associate		984	–
Property, plant and equipment		11,726	18,657
Investment properties		4,025	4,052
Right-of use assets		11,747	–
Deferred income tax assets		18	53
		<u>28,500</u>	<u>22,762</u>
Current assets			
Inventories		20,224	8,794
Trade and other receivables	11	104,681	113,127
Current income tax recoverable		2,035	–
Pledged bank deposits		5,140	5,232
Fixed deposits		11,986	–
Cash and bank balances		28,208	5,572
		<u>172,274</u>	<u>132,725</u>
Total assets		<u>200,774</u>	<u>155,487</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		5,206	–
Paid in capital		–	112,313
Share premium		49,306	–
Capital reserve		29,487	(82,826)
Retained earnings		91,858	87,911
		<u>175,857</u>	<u>117,398</u>
Total equity		<u>175,857</u>	<u>117,398</u>

	<i>Notes</i>	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Non-current liabilities			
Borrowings		5,042	4,744
Lease liabilities		967	–
Deferred income tax liabilities		461	–
		<u>6,470</u>	<u>4,744</u>
Current liabilities			
Trade and other payables	<i>12</i>	12,401	26,536
Current income tax liabilities		56	841
Borrowings		5,429	5,968
Lease liabilities		561	–
		<u>18,447</u>	<u>33,345</u>
Total liabilities		<u>24,917</u>	<u>38,089</u>
Total equity and liabilities		<u>200,774</u>	<u>155,487</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Heng Hup Holdings Limited (the “**Company**”) was incorporated on 12 April 2018 as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the “**Group**”) are principally engaged in trading of scrap ferrous metals, used batteries, waste paper and other scraps in Malaysia (the “**Business**”).

Prior to the incorporation of the Company and the completion of a reorganisation (the “**Reorganisation**”) in preparation for the listing of the Company’s share on the Main Board of The Stock Exchange of Hong Kong Limited, the Business of the Group was primarily carried out by Heng Hup Metal Sdn. Bhd., Heng Hup Paper Sdn. Bhd., Heng Hup Paper (Melaka) Sdn. Bhd., Heng Hup Hardware (M) Sdn. Bhd. and Heng Hup Metal (Johor) Sdn. Bhd. (collectively, the “**Operating Companies**”), and are controlled by Mr. Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong (collectively, the “**Sia Brothers**”).

The Reorganisation was completed on 13 February 2019 and since then, the Company became the holding company of the Operating Companies and all other companies now comprising the Group. The Company’s shares were successfully listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 March 2019.

The Company’s ultimate holding company is 5S Holdings (BVI) Limited. The ultimate controlling party of the Group are the Sia Brothers.

These consolidated financial statements is presented in Malaysian Ringgit (“**RM**”) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities of The Stock Exchange and the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

Immediately prior to the Reorganisation, the Group’s business was primarily conducted through the Operating Companies. Pursuant to the Reorganisation, the Group’s business was transferred to and held by the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The Reorganisation is merely a reorganisation of the Group’s business with no change in management and the ultimate owners of the Group’s business remain substantially the same.

The Group resulting from the Reorganisation is regarded as a continuation of the Group’s business under the Operating Companies. Accordingly, the consolidated financial statements have been prepared and presented at the carrying amounts of the Operating Companies as a continuation of the Group’s business as if the Group structure had always existed as at 1 January 2018.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

2.2 New and amended standards, interpretation and improvements adopted by the Group

The following new and amended standards, interpretation and improvements have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2019:

Annual improvements project (Amendments)	Annual improvements 2015-2017 Cycle
IFRS 16	Leases
IFRIC-Int 23	Uncertainty over income tax treatments
IFRS 9 (Amendments)	Prepayment features with negative compensation
IAS 28 (Amendments)	Long-term interests in associates and joint ventures
IAS 19 (Amendments)	Plan amendment, curtailment or settlement

The following explains the impact of the adoption of IFRS 16 Leases (“IFRS 16”) on the Group’s financial statements.

During the financial year, the Group changed its accounting policies on leases upon adoption of IFRS 16. The Group has elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in IFRS 16.

Under the simplified retrospective transition method, the 2018 comparative information was not restated and the cumulative effects of initial application of IFRS 16 where the Group is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under IAS 17 “Leases” and IFRIC 4 “Determining whether an arrangement contains a Lease”.

(i) Adjustments recognised on adoption of IFRS16

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

	31 December 2018 (As originally presented) <i>RM'000</i>	Effect of IFRS 16 <i>RM'000</i>	1 January 2019 (Restated) <i>RM'000</i>
Consolidated statement of financial position (extract)			
Non-current assets			
Property, plant and equipment	18,657	(10,469)	8,188
Right-of-use assets	–	11,645	11,645
	<u>18,657</u>	<u>1,176</u>	<u>19,833</u>
Equity			
Retained earnings	<u>87,911</u>	<u>(50)</u>	<u>87,861</u>
Non-current liabilities			
Lease liabilities	–	856	856
Current liabilities			
Lease liabilities	<u>–</u>	<u>370</u>	<u>370</u>

The table below shows the reconciliation of operating lease commitments and finance lease liabilities disclosed as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019:

	<i>RM'000</i>
Operating lease commitments disclosed as at 31 December 2018	4
Less: Low-value leases recognised on a straight-line basis as expense	(4)
Add: Adjustments upon adoption of IFRS 16	<u>1,226</u>
Lease liabilities recognised as at 1 January 2019	<u><u>1,226</u></u>
Of which are:	
Current lease liabilities	370
Non-current lease liabilities	<u>856</u>
	<u><u>1,226</u></u>

There was no material impact on the earnings per share, the segment profits for the year ended 31 December 2019 and the segment assets as at 31 December 2019 as a result of the adoption of IFRS 16.

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and IFRIC 4 “Determining whether an arrangement contains a Lease”.

Apart from aforementioned IFRS 16, there are no other new standards or amendments to standards, interpretation and annual improvement that are effective for the first time for this financial period that have a material impact on the Group.

2.3 New and amended standards not yet adopted by the Group

The following new and amended standards, interpretation, improvements and revised framework are not effective for financial year beginning on 1 January 2019, and have not been applied in preparing these consolidated financial statements:

		Effective for annual periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
IAS 1 and IAS 8 (Amendments)	Definition of material	1 January 2020
IFRS 3 (Amendments)	Definition of a business	1 January 2020
IAS 39, IFRS 7 and IFRS 9 (Amendments)	Hedge accounting	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
IFRS 10 & IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	Not yet determined by the IASB

The Group will apply the above new and amended standards, interpretation, improvements and revised framework when they become effective. The directors of the Company is in the process of assessing the financial impact of the other new and amended standards, interpretation, improvements and revised framework, but is not yet in a position to state whether they would have significant impacts on its results of operations and financial position.

3. REVENUE AND SEGMENT INFORMATION

The Group is mainly engaged in trading of scrap ferrous metals, used batteries, waste paper and other scraps.

The Group has been operating in a single operating segment, i.e. trading of recycling materials.

The chief operating decision-makers have been identified as the executive directors and senior management led by the Group's chief executive officer. The executive directors and senior management review the Group's internal reporting to assess performance and allocate resources. A management approach has been used for the operating segment reporting.

The chief operating decision-makers assesses the performance of the operating segment based on a measure of profit before income tax.

During the year ended 31 December 2019 and 2018, the Group mainly traded in Malaysia and most of the revenue were generated in Malaysia.

All revenue are recognised at a point in time upon delivery.

4. OTHER INCOME

	2019 RM'000	2018 RM'000
Compensation received	9	59
Rental income	7	10
Others	69	60
	<hr/> 85 <hr/>	<hr/> 129 <hr/>

5. OTHER (LOSSES)/GAINS, NET

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Other gains		
Gain on disposal property, plant and equipment	126	145
Gain on disposal of assets held for sale	–	9,274
Foreign exchange gains	<u>254</u>	<u>6</u>
	380	9,425
Other losses		
Property, plant and equipment written-off	–	(38)
Provision for loss allowance on trade receivables	<u>(1,207)</u>	<u>–</u>
Other (losses)/gain, net	<u>(827)</u>	<u>9,387</u>

6. EXPENSES BY NATURE

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Cost of trading goods sold	933,219	829,227
Employee benefit expenses	10,826	15,985
Depreciation expenses		
– Property, plant and equipment	2,446	2,363
– Right-of-use assets	708	–
Amortisation expenses	27	21
Auditors' remuneration		
– Audit services	650	137
– Non-audit services	220	–
Listing expenses	3,778	8,302
Transportation costs	15,721	7,052
Other expenses	<u>9,224</u>	<u>8,356</u>
Total cost of sales, distribution and selling expenses and administrative expenses	<u>976,819</u>	<u>871,443</u>

7. FINANCE COSTS, NET

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Interest income from bank deposits	<u>543</u>	<u>433</u>
Interest expense on loans	(480)	(538)
Interest expense on hire purchase liabilities	(141)	(69)
Interest expense on lease liabilities	(50)	–
Interest expense on bank overdrafts	<u>(53)</u>	<u>(31)</u>
Finance costs	<u>(724)</u>	<u>(638)</u>
Finance costs, net	<u>(181)</u>	<u>(205)</u>

8. INCOME TAX EXPENSES

Malaysian corporate income tax has been provided at the rate of 24% (2018: 24%) of the estimated assessable profit for the year ended 31 December 2019 and 2018.

Malaysian real property gains tax has been provided at the rate of 15% of the gains derived from disposal of real property investments for the year ended 31 December 2018.

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Current tax:		
Malaysian corporate income tax	4,064	7,639
Malaysian real property gains tax	<u>–</u>	<u>464</u>
	4,064	8,103
Under provision in prior year:		
Malaysian corporate income tax	<u>654</u>	<u>201</u>
	<u>4,718</u>	<u>8,304</u>
Deferred income tax	496	(689)
Under provision of deferred income tax in prior year	<u>–</u>	<u>36</u>
	<u>496</u>	<u>(653)</u>
Income tax expenses	<u>5,214</u>	<u>7,651</u>

9. DIVIDENDS

On 23 September 2019, the Directors had proposed and paid special dividend of HK\$0.005 per ordinary share on 1,000,000,000 ordinary shares in respect of the financial year ended 31 December 2019 amounting to a total of RM2,675,000 (equivalent to approximately HK\$5,000,000).

No final dividend was paid or proposed by the Company since the end of the reporting period in respect of the year ended 31 December 2019.

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company for the financial year by the weighted average number of ordinary shares in issue during the respective periods. The weighted average number of shares used for such purpose has been retrospectively adjusted for the effects of the issue of shares in connection with the Reorganisation as described in Note 1 and the capitalisation of 749,992,560 shares had been effected on 1 January 2019. Diluted earnings per share is calculated by dividing the profit attributable to owners of the Company for the financial year by the weighted average number of ordinary shares issued during the respective financial year adjusted for the dilutive effects of all potential ordinary shares.

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Earnings:		
Profit for the years attributable to the owners of the Company	6,672	24,622
Number of shares:		
Weighted average number of shares in issue	950,000,000	750,000,000
Basic earnings per share (expressed in sen)	<u>0.70</u>	<u>3.28</u>

As at 31 December 2019 and 31 December 2018, the Company has no outstanding potentially dilutive shares.

11. TRADE AND OTHER RECEIVABLES

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Trade receivables	92,752	96,028
Less: Provision for loss allowance	<u>(1,207)</u>	<u>–</u>
	91,545	96,028
Other receivables	2,181	1,021
Deposits and prepayments	2,588	4,263
Downpayment to suppliers	8,179	11,654
Other tax receivables	102	161
Amount due from an associate	<u>86</u>	<u>–</u>
	<u>104,681</u>	<u>113,127</u>

The Group generally grants credit terms ranging from 0 to 90 days to customers upon the approval of management according to the credit quality of individual customers. The aging analysis of the trade receivables based on invoice date were as follows:

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
0 – 30 days	88,526	64,792
31 – 60 days	1,585	7,227
61 – 120 days	1,252	19,877
Over 120 days	1,389	4,132
	<u>92,752</u>	<u>96,028</u>

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
– RM	88,846	95,906
– United States Dollar	3,906	122
	<u>92,752</u>	<u>96,028</u>

The Group measures the expected credit losses on the trade receivables by grouping them based on shared credit risk characteristics and the days past due. The expected loss rates are estimated based on the historical credit losses experienced, adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of forward looking economic conditions. The increase in the provision for loss allowance is due to an increase in the probability of default (PD) used to calculate the expected credit loss for the trade receivables.

Movement for provision of loss allowance for trade receivables are as follows:

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
At 1 January	–	–
Provision for loss allowance	1,207	–
	<u>1,207</u>	<u>–</u>
At 31 December	1,207	–

The carrying amounts of other receivables are denominated in RM and approximate their fair values.

12. TRADE AND OTHER PAYABLES

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
Trade payables	6,915	10,692
Accrued salaries	2,169	4,917
Other payables and accruals	3,317	10,927
	<u>12,401</u>	<u>26,536</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
– RM	5,734	10,692
– United States Dollar	1,181	–
	<u>6,915</u>	<u>10,692</u>

The aging analysis of the trade payables based on invoice date was as follows:

	2019 <i>RM'000</i>	2018 <i>RM'000</i>
0 – 30 days	6,915	10,555
31 – 60 days	–	137
	<u>6,915</u>	<u>10,692</u>

The carrying amounts of the trade and other payables approximate their fair values.

BUSINESS REVIEW

During the year ended 31 December 2019, our revenue achieved RM990.6 million (2018: RM894.4 million), representing an increase of 10.8% as compared to the previous year. Sales volume of the scrap ferrous metals for year ended 31 December 2019 was 692,899 tonnes (2018: 580,911 tonnes), representing an increase of 19.3% as compared to the previous year. Our performance in 2019 reflected the continuous growth of demand of our recycled products during the year.

However, the steel market in Malaysia witnessed a sustained price fall since mid of year 2019, following the price trend in the international steel market as driven by the global excess supply and the protracted Sino-US trade tension. The steel bar price dropped from RM2,240 per tonne in July 2019 to RM1,950 per tonne in December 2019, down by RM290 per tonne or 12.9% according to Ministry of International Trade Industry (“**MITI**”) in Malaysia. Steel mills in the midst of such price decline offered our Group a lower buying price. In addition, the market competition amongst scrap ferrous metal traders in securing supplies in Malaysia has become more intense during 2019 which has resulted the increase in procurement prices. As a result, our Company experienced a gradual tightening in our gross margin for the scrap ferrous metal trading business since July 2019. Thus, we recorded a net profit of RM6.7 million (2018: RM24.6 million).

The domestic steel bar price regained its rising momentum from an exceptionally low level in third quarter of 2019 and continued into the beginning of 2020. According to MITI in Malaysia, the steel bar price was RM2,170 per tonne as at 13 March 2020. There are also signs of improvement in market sentiment following the announcements of some mega infrastructure and development projects, and construction activities are expected to ramp up eventually. Nonetheless, the recent outbreak of coronavirus in worldwide has disrupted the supply chains and steel prices, contributing to short-term market uncertainty and risk. The major global and local uncertainties may affect construction market recovery.

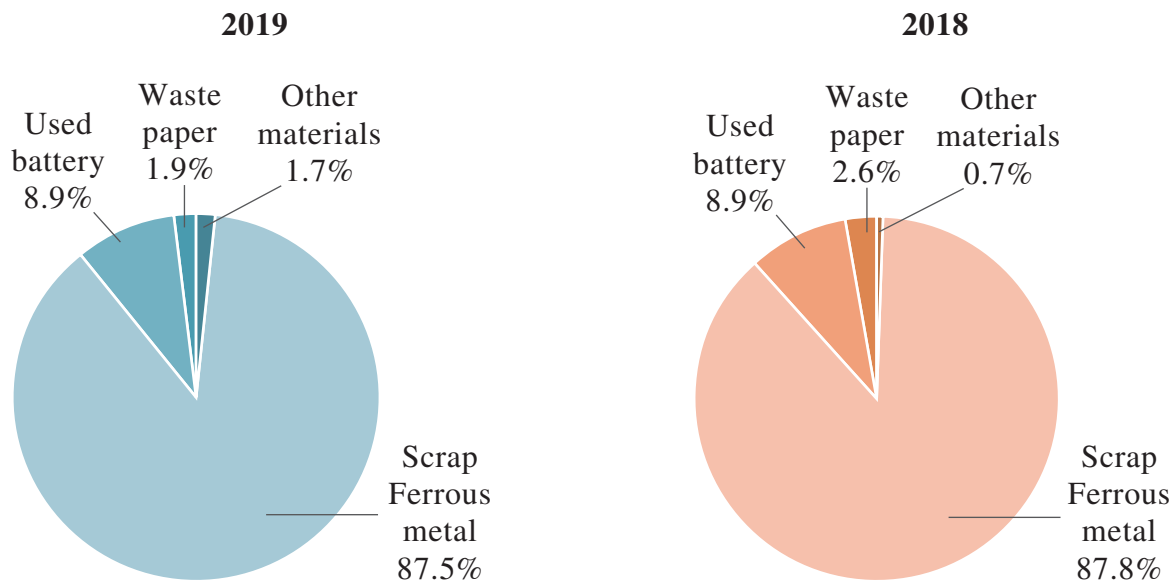
Looking forward into 2020, the Group will continue to leverage off our core competitive advantages to achieve remarkable growth in our revenue and profitability. We plan to continue to strengthen our market leading position in the Malaysian scrap ferrous metal trading industry, by expanding our supplier and customer bases and increasing our business volume of scrap ferrous metals. We will exercise caution and hope to achieve a satisfactory performance in this turbulent business environment.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

Revenue of the Group for the year ended 31 December 2019 was RM990.6 million (2018: RM894.4 million), representing an increase of 10.8% as compared to last year. The breakdown of our total revenue by product types for the years under review are as below:



The increase in the Group's revenue was mainly attributable to the increase in sales volume of scrap ferrous metals of 19.3%. The increase in sales volume of scrap ferrous metals was primarily attributable to two reasons. Firstly, there was an increase in demand for the scrap ferrous metals in Malaysia for year ended 31 December 2019. Secondly, the shortened trade receivables turnover days enhanced the Group's capability to purchase more scrap ferrous metals from suppliers for trading purposes.

Despite the increase in sale volume of scrap ferrous metals, the average selling price of scrap ferrous metals decreased by 7.4%, which was mainly attributable to sustained price fall for steel bar price since mid of year 2019, basically following the price trend in the international steel market as driven by the global excess supply and the protracted Sino-US trade tension. As a result, steel mills in the midst of such price decline eventually offering our Group a lower buying price.

Our revenue from sales of scrap ferrous metal during the financial year under review are contributed by the following:

	Year Ended 31 December							
	2019				2018			
	Volume sold (tonnes)	%	Revenue (RM'000)	%	Volume sold (tonnes)	%	Revenue (RM'000)	%
Local	669,766	96.7	838,067	96.7	571,234	98.3	769,765	98.0
Export	23,133	3.3	29,200	3.3	9,677	1.7	15,762	2.0
Total	692,899	100.0	867,267	100.0	580,911	100.0	785,527	100.0

Gross Profit

Despite that the revenue for year ended 31 December 2019 increased by 10.8% as compared with last year, our Group's gross profit for year ended 31 December 2019 decreased from RM58.4 million to RM50.4 million as compared with last year.

Our Group's gross profit margin declined to 5.1% for the year ended 31 December 2019 as compared to 6.5% for the year ended 31 December 2018. We do not consider the gross profit margin is a meaningful indicator to analyse our financial performance, as the pricing for scrap ferrous metals is basically dictated by our top steel mill customer, who determines the procurement price at which it agrees to take up scrap ferrous metals from us. Instead, our business objective is to maximise the gross margin between the procurement price set by our customer and the buying price we pay for scrap ferrous metals from our suppliers.

Our Company experienced a gradual tightening in our gross margin for the scrap ferrous metal trading business since July 2019 mainly due to two reasons. Firstly, procurement price offered by our customers generally declined in response to the general price decrease in steel products. Secondly, the market competition amongst scrap ferrous metal traders in securing supplies in Malaysia has become more intense during 2019 which has resulted in higher buying prices in sourcing suppliers. Our Group was not able to reduce the procurement price payable to the suppliers for scrap ferrous metal by the same magnitude as its customers lowered their buying price offered to our Group.

Other income

Other income decreased from RM0.13 million for year ended 31 December 2018 to RM0.09 million for year ended 31 December 2019, mainly attributable to less insurance compensation claimed during the year.

Other (losses)/gains, net

Our Group's other (losses)/gain, net decreased from net gains of RM9.4 million for year ended 31 December 2018 to net losses of RM0.8 million for year ended 31 December 2019. This was mainly attributable to the absence of one-off gain of RM9.3 million on the disposal of assets classified as held for sale recognised in year ended 31 December 2018. Further, there was a provision for loss allowance on trade receivables of RM1.2 million provided for during the year pursuant to the measurement of expected credit losses allowance on trade receivables.

Distribution and Selling Expenses

Our Group's distribution and selling expenses increased from RM11.2 million for year ended 31 December 2018 to RM19.4 million for year ended 31 December 2019, primarily due to the increase in truck hire expenses for engaging external logistic companies to cope with growing demands of scrap ferrous metal from a new customer located in the state of Pahang, Malaysia.

Administrative Expenses

The decrease in the Group's administrative expenses from RM24.2 million for year ended 31 December 2018 to RM17.2 million was mainly attributable to two reasons. Firstly, the listing expenses decreased by RM4.5 million for year ended 31 December 2019, which primarily consisted of professional fees in connection with the Listing of the Company. Secondly, the executive directors have collectively agreed to waive their incentives and bonuses for the year ended 31 December 2019.

Taxation

Malaysian corporate income tax has been provided at the rate of 24% of the estimated assessable profit. Our effective tax rate for year ended 31 December 2019 was 43.9% (2018: 23.7%). The high effective tax rate of 43.9% was mainly attributable to the non-deductible listing expenses of RM3.8 million incurred during the year and also the realisation of deferred tax assets in relation to the prior years' accrued bonuses paid during the year.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners for year ended 31 December 2019 was RM6.7 million (2018: RM24.6 million), which is in tandem with the decrease in profit before tax expenses.

Key Financial Ratios

The following table sets forth certain of our financial ratios as at the dates indicated.

Liquidity Ratios	As At 31 December	
	2019	2018
Current ratio	9.3 times	4.0 times
Gearing ratio	0.06 times	0.1 times
	For the year ended	
	31 December	
	2019	2018
Inventories' turnover period	5.6 days	3.9 days
Trade receivables' turnover period	34.6 days	36.1 days
Trade payables' turnover period	3.4 days	5.5 days

Working Capital

The inventories' turnover period of the Group was 5.6 days for the year ended 31 December 2019 as compared to 3.9 days for the previous year. The marginal increase was primarily due to increase in volume of inventories maintained at our scrapyards to satisfy the increasing demands of our customers.

The Group's trade receivables' turnover period was 34.6 days for the year ended 31 December 2019 as compared to 36.1 days for the previous year. Such decrease was mainly attributable to the stringent credit monitoring policy adopted by the Group during the year ended 31 December 2019.

The Group's trade payables' turnover period was 3.4 days for year ended 31 December 2019 as compared to 5.5 days for the previous year. The improved trade payables' turnover period was mainly attributable to the net proceeds from the Share Offer which has enhanced the Group's working capital to settle the purchase of scrap ferrous metal from suppliers at a faster pace.

Liquidity and Financial Resources

As at 31 December 2019, the Group's total equity attributable to owners amounted to RM175.9 million (2018: RM117.4 million) including retained earnings of RM91.9 million (2018: 87.9 million). The Group's working capital amounted to RM153.8 million (2018: RM99.4 million) of which cash and bank balances, pledged bank deposits and fixed deposits were RM45.3 million (2018: RM10.8 million).

Taking into account the cash and cash equivalents on hand, banking facilities available to us and the net proceeds from the share offer, the Group has adequate liquidity and financial resources to meet the working capital requirements as well as to fund its budgeted expansion plans in the next financial year. The Board will continue to follow a prudent treasury policy in managing its bank balances and cash and maintain a strong and healthy liquidity to ensure that the Group is well positioned to achieve its business objectives and strategies.

Total borrowings of the Group as at 31 December 2019 were RM10.5 million (2018: RM10.7 million). The borrowings were mainly used to finance the procurement of scrap ferrous metals and capital expenditure.

The Group's gearing ratio as at 31 December 2019 was 0.06 times (2018: 0.1 times). Gearing ratio is calculated based on total interest-bearing debts divided by total equity as at the end of the year.

Future Plans for Material Investments and Capital Assets

As at 31 December 2019, the Group did not have any other plans for material investments and capital assets except for those disclosed in the section headed "Future Plans and Use of Proceeds" of the Prospectus of the Company issued on 27 February 2019 (the "**Prospectus**").

Material Acquisitions and Disposals of Subsidiaries

During the year ended 31 December 2019, the Group did not have any material acquisitions and disposals of subsidiaries, saved as disclosed in Note 1.

Pledge of Assets

At 31 December 2019, the Group has pledged the following assets to banks to secure certain bank borrowings and general banking facilities granted to the Group:

	2019 RM'000	2018 <i>RM'000</i>
Property, plant and equipment	–	10,469
Right-to-use assets	10,294	–
Investment properties	3,397	3,412
Pledged bank deposits	5,140	5,232
	18,831	19,113

Contingent Liabilities

The Group did not have any contingent liability as at 31 December 2019 (2018: Nil).

Capital Commitments

As at 31 December 2019, the Group has capital commitment in respect of acquisition of plant and equipment of RM1.7 million (2018: RM2.4 million).

Risk Management

The Group in its ordinary course of business is exposed to market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group operates in Malaysia and the Group's transactions are mainly denominated in RM which is the functional and presentation currency for the Group's operating subsidiaries. The Group is not exposed to significant foreign currency risk.

The Group has minimal exposure to foreign currency risk as most of the business transactions, assets and liabilities are principally denominated in RM. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The management monitors our foreign currency closely and will consider hedging significant foreign currency exposure should the need arise.

The Group's interest rate risk mainly arises from borrowings. Borrowings excluding hire purchase liabilities obtained at variable rates expose the Group to cash flow interest rate risk.

The credit risk of the Group mainly arises from cash and cash equivalents, trade and other receivables and amounts due from related parties. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default as at the date of initial recognition. The Group considers available reasonable and supportive forwarding looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of individual property owner or the borrower
- significant increases in credit risk on other financial instruments of the individual property owner or the same borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower

To manage this risk arising from cash and bank deposits, our Group only transacts with reputable commercial banks which are all high-credit-quality financial institutions. There has been no recent history of default in relation to these financial institutions. The expected credit loss of cash and bank balances is close to zero.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. During the year ended 31 December 2019, the expected losses rate for trade receivables is 1.3% (2018: less than 1%). The provision for trade receivables made during the year ended 31 December 2019 is RM1.2 million (2018: Nil).

The Group made no write-off of trade receivables during the years ended 31 December 2019 and 2018.

The Group has significant concentration of credit risk from customers for scrap ferrous metals such as steel mills and ferrous metal trading companies. At 31 December 2019, 92% (2018: 94%) of its total trade receivables was due from this group of customers. As our Group is one of the few approved scrap metal providers to the steel mill customers and based on the past repayment history and forward-looking estimates, the Directors believe that the credit risk inherent in the Group's outstanding trade receivables from this group of customers is low.

Our Group monitors the outstanding debts from its customers individually due to the concentration of credit risk. Based on historical repayment trend, there is no correlation between the risk of default occurring and the collection past-due status as long as there is no significant change in the credit rating of the customers. Historically, our Group's loss arising from risk of default and time value of money is minimal.

Cash flow forecasting is performed by the operating entities of the Group and aggregated by Group finance. The Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration of the Group's debt financing plans, covenant compliance, and if applicable external regulatory or legal requirements, such as currency restrictions.

EVENTS OCCURRED SINCE THE END OF THE YEAR ENDED 31 DECEMBER 2019

The recent outbreak of Coronavirus Disease 2019 (“**COVID-19**”) since early of year 2020 has seen significant cases increased worldwide which prompted The World Health Organisation to declare it as a pandemic on 11 March 2020. A series of precautionary and control measures have been and continued to be implemented across the world. The Malaysian Government imposed the Movement Control Order (“**MCO**”) from 18 March 2020 to 14 April 2020. Consequently, the MCO is expected to have material adverse effects on the Malaysia's economy for year 2020.

The management of the Group has assessed the overall impact of the situation on the Group's operations and financial position and concluded that there are no material effects on the consolidated financial statements for the year ended 31 December 2019. As at the date of this announcement, management is unable to reliably estimate the financial impact of COVID-19 on the Group's financial results for the year ending 31 December 2020 as the pandemic has yet to run its full course hence the current situation is still fluid. The Directors shall continuously assess the impact of COVID-19 on its operations as well as the financial position for the year ending 31 December 2020.

USE OF PROCEEDS FROM THE SHARE OFFER

The shares of the Company have been listed and traded on the Main Board of the Hong Kong Stock Exchange on 15 March 2019.

The net proceeds raised by the Company from the Share Offer were approximately RM41.0 million (equivalent to approximately HK\$78.8 million) (based on the final Offer Price of HK\$0.50 per Offer Share), after deducting underwriting fees and all related expenses incurred in the amount of HK\$46.2 million. The Company intends to apply the net proceeds on a pro rata basis for the purposes as disclosed in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

	Available <i>(RM'000)</i>	Utilised <i>(RM'000)</i>	Net Proceeds Unutilised <i>(RM'000)</i>
Partially replacing our fleet of trucks	3,604	2,044	1,560
Enhancing our processing abilities	2,908	2,598	310
Setting up a new enterprise resource planning system	942	372	570
Setting up a new scrapyard in the east coast of Peninsular Malaysia	4,546	–	4,546
Expansion of our scrapyard in Selangor, Malaysia	6,389	723	5,666
The Group's working capital for our scrap ferrous metal trading business	18,471	18,471	–
General working capital for other general corporate purpose (excluding the purchase of scrap materials)	4,096	4,096	–
Total	40,956	28,304	12,652

As at the date of this announcement, there were no changes of the business plans from those disclosed in the section headed “Future Plans and Use of Proceeds” of the Prospectus of the Company issued on 27 February 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 129 (2018: 109) employees in Malaysia. For the year ended 31 December 2019, total staff costs and related expenses of the Group (including the Directors' remuneration) were RM10.8 million (2018: RM16.0 million), representing a decrease of 32.5% as compared to the year ended 31 December 2018. The decrease was mainly attributable to the executive directors have collectively agreed to waive their incentives and bonuses for the year ended 31 December 2019. The Group enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Group's employees includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions. The emolument policy for the employees of the Group is set up by the Board on the basis of their merit, qualification and competence. We provide regular training to our employees in order to improve their skills and knowledge. The training courses range from further educational studies to skill training to professional development courses for management personnel.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2019 (2018: Nil).

CLOSURE OF REGISTER OF MEMBERS FOR 2020 AGM

The register of members of the Company will be closed from Tuesday, 16 June 2020 to Saturday, 20 June 2020, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting to be held on Saturday, 20 June 2020 (the "2020 AGM"). In order to be eligible to attend and vote at the 2020 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Monday, 15 June 2020.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this announcement, the Company has maintained the public float as required under the Listing Rules.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. During the date of listing of the Company to year ended 31 December 2019, the Company has been in compliance with the code provisions as set out in the Code of Corporate Governance (the “**Corporate Governance Code**”) as contained in Appendix 14 to the Listing Rules except for the deviation from the code provision A.2.1 of the Corporate Governance Code. Mr. Sia Kok Chin, as the chairman of the Board and the chief executive officer, has been managing our business since 2001. The Directors consider that vesting the roles of the chairman of the Board and the chief executive officer in Mr. Sia Kok Chin is beneficial to the management and business development of the Group and will provide strong and consistent leadership to the Group. The Board will continue to review and consider splitting the roles of the chairman of the Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

The Board will continue to review and monitor its code of corporate governance practices of the Company with an aim to maintaining a high standard of corporate governance.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuer” (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding dealings in the securities of the Company by the Directors and the Group’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Group or the Company’s securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the year under review. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Group during the year under review.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The Audit Committee of the Company (being Ms. Sai Shiow Yin, Mr. Puar Chin Jong and Mr. Chu Kheh Wee) has reviewed with management the consolidated financial information for the year ended 31 December 2019, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement. The Audit Committee has reviewed the annual results for the year ended 31 December 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.henghup.com). The annual report of the Company for the year ended 31 December 2019 will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

By order of the Board
Heng Hup Holdings Limited
Sia Kok Chin
Chairman and Chief Executive Officer

Hong Kong, 27 March 2020

As at the date of this announcement, the directors of the Company are:

Executive Directors

Mr. Sia Kok Chin (*chairman and chief executive officer*)

Datuk Sia Keng Leong

Mr. Sia Kok Chong

Mr. Sia Kok Seng

Mr. Sia Kok Heong

Independent Non-Executive Directors

Ms. Sai Shiow Yin

Mr. Puar Chin Jong

Mr. Chu Kheh Wee