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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 FINANCIAL YEAR ENDED 31 DECEMBER 2022

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 financial year ended 31 December 2022, together with the comparative figures for the financial year ended 31 December 2021 as follows:

FINANCIAL HIGHLIGHTS

- Revenue for the financial year ended 31 December 2022 amounted to RM1,404.58 million (equivalent to approximately HK\$2,464.17 million), representing a decrease of approximately 0.96% from RM1,418.24 million (equivalent to approximately HK\$2,488.14 million) recorded in 2021.
- Gross profit for the financial year ended 31 December 2022 amounted to RM52.33 million (equivalent to approximately HK\$91.81 million), representing a decrease of approximately 32.54% from RM77.57 million (equivalent to approximately HK\$136.09 million) recorded in 2021.
- Profit attributable to owners of the Company for the financial year ended 31 December 2022 amounted to RM1.48 million (equivalent to approximately HK\$2.58 million), representing a decrease of 94.18% from RM25.41 million (equivalent to approximately HK\$44.59 million) in 2021.
- The equity attributable to owners of the Group as at 31 December 2022 amounted to RM204.76 million (equivalent to approximately HK\$359.22 million), representing a decrease of 1.01% from RM206.84 million (equivalent to approximately HK\$362.88 million) in 2021.
- The Board had decided not to recommend the payment of final dividend in respect of the financial year ended 31 December 2022 (2021: HK\$0.008 per share).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

| | <i>Notes</i> | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|--|--------------|------------------------------|------------------------------|
| Revenue | 3 | 1,404,575 | 1,418,239 |
| Cost of sales | 6 | (1,352,246) | (1,340,665) |
| Gross profit | | 52,329 | 77,574 |
| Other income | 4 | 6,411 | 4,239 |
| Other losses, net | 5 | (1,568) | (195) |
| Distribution and selling expenses | 6 | (25,755) | (21,778) |
| Administrative expenses | 6 | (24,945) | (22,931) |
| Operating profit | | 6,472 | 36,909 |
| Finance income | 7 | 249 | 239 |
| Finance costs | 7 | (2,446) | (1,608) |
| Finance costs, net | | (2,197) | (1,369) |
| Share of results of an associate | | – | 6 |
| Profit before income tax | | 4,275 | 35,546 |
| Income tax expense | 8 | (2,800) | (10,132) |
| Profit and total comprehensive income for the year | | 1,475 | 25,414 |
| Net profit and total comprehensive income for the year attributable to owners of the Company | | | |
| – Owners of the Company | | 2,381 | 25,485 |
| – Non-controlling interest | | (906) | (71) |
| Earnings per share attributable to owners of the Company for the year (expressed in sen per share) | | | |
| – Basic and diluted earnings per share | 10 | 0.24 | 2.55 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

| | <i>Notes</i> | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---|--------------|------------------------------|-----------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investment in associates | | – | 6 |
| Property, plant and equipment | | 22,760 | 18,548 |
| Intangible asset | | 305 | 414 |
| Investment properties | | 5,953 | 6,112 |
| Deposits | <i>11</i> | 17,636 | 930 |
| Right-of-use assets | | 21,359 | 11,333 |
| Deferred income tax assets | | 1,118 | 838 |
| | | <u>69,131</u> | <u>38,181</u> |
| Current assets | | | |
| Inventories | | 49,404 | 56,911 |
| Trade and other receivables | <i>11</i> | 125,091 | 153,234 |
| Current income tax recoverable | | 4,175 | – |
| Pledged bank deposits | | 5,437 | 5,345 |
| Cash and bank balances | | 25,218 | 26,349 |
| | | <u>209,325</u> | <u>241,839</u> |
| Total assets | | <u>278,456</u> | <u>280,020</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 5,206 | 5,206 |
| Share premium | | 49,306 | 49,306 |
| Capital reserve | | 29,487 | 29,487 |
| Retained earnings | | 120,758 | 122,844 |
| | | <u>204,757</u> | <u>206,843</u> |
| Non-controlling interest | | <u>(977)</u> | <u>(71)</u> |
| Total equity | | <u>203,780</u> | <u>206,772</u> |

| | <i>Notes</i> | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|-------------------------------------|--------------|-------------------------------------|-----------------------|
| Non-current liabilities | | | |
| Borrowings | | 12,894 | 4,211 |
| Lease liabilities | | 829 | 709 |
| Deferred income tax liabilities | | 646 | 517 |
| | | <u>14,369</u> | <u>5,437</u> |
| Current liabilities | | | |
| Trade and other payables | <i>12</i> | 19,382 | 35,410 |
| Current income tax liabilities | | 463 | 2,701 |
| Borrowings | | 39,393 | 29,190 |
| Lease liabilities | | 1,069 | 510 |
| | | <u>60,307</u> | <u>67,811</u> |
| Total liabilities | | <u>74,676</u> | <u>73,248</u> |
| Total equity and liabilities | | <u>278,456</u> | <u>280,020</u> |

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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 Company’s ultimate holding company is 5S Holdings (BVI) Limited. The ultimate controlling party of the Group are Datuk Sia Kok Chin, Datuk Sia Keng Leong, Mr. Sia Kok Chong, Mr. Sia Kok Seng and Mr. Sia Kok Heong.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCLOSURES

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

The preparation of consolidated financial information 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 Amended standards and annual improvements adopted by the Group

The Group had applied the following amended standards and annual improvements which are mandatory effective for annual period beginning on or after 1 January 2022 for the preparation of the Group’s consolidated financial information:

| | |
|---|---|
| Amendments to IAS 16 | Property, plant and equipment: proceeds before intended use |
| Amendments to IAS 37 | Onerous contracts – cost of fulfilling a contract |
| Amendments to IFRS 3 | Reference to the Conceptual Framework |
| Amendments to annual improvements project | Annual improvements 2018-2020 cycle |
| Accounting Guideline 5 (Revised) | Merger accounting for common Control combinations |

The application of the amended standards and annual improvements in the current period did not have any material impact to the Group’s financial positions and performance for the current and prior period, nor on the disclosures set out in this consolidated financial information.

2.3 New standards and amendments to standards and interpretation not yet adopted by the Group

A number of new standards and amendments to standards and interpretation have been issued but not effective for annual periods beginning on or after 1 January 2023 and have not been early adopted by the Group in preparing this consolidated financial information:

| | | Effective for annual periods beginning on or after |
|---|---|---|
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of accounting policies | 1 January 2023 |
| Amendments to IAS 8 | Definition of accounting estimates | 1 January 2023 |
| Amendments to IAS 12 | Deferred income tax related to assets and liabilities arising from a single transaction | 1 January 2023 |
| IFRS 17 | Insurance contracts | 1 January 2023 |
| IFRS 17 | Initial application of IFRS 17 and IFRS 9 – comparative information | 1 January 2023 |
| Amendments to IAS 1 | Classification of liabilities as current or non-current | 1 January 2024 |
| Amendments to IAS 1 | Non-current liabilities with covenants | 1 January 2024 |
| Amendments to IFRS 16 | Lease liability in a sale and leaseback | 1 January 2024 |
| HK-Interpretation 5 (Revised) | Hong Kong Interpretation 5 (Revised) Presentation of financial statements-Classification by the borrower of a term loan that contains a repayment on demand clause (HK Int 5 (Revised)) | 1 January 2024 |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |

The above new standards and amendments to standards and interpretation are not expected to have any significant impact on the consolidated financial information of the Group.

3. REVENUE AND SEGMENT INFORMATION

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

The Group has been operating in a single operating segment, which is the trading of recycling materials.

The chief operating decision-makers are 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. The Group uses a management approach for operating segment reporting.

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

During the financial years ended 31 December 2022 and 31 December 2021, the Group mainly traded in Malaysia and the majority of its revenue was generated in Malaysia.

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

Major customers

Revenue from customers contributing over 10% of the total revenue of the Group is as follows:

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|------------|-----------------------|-----------------------|
| Customer 1 | 627,551 | 626,205 |
| Customer 2 | 573,488 | 539,482 |

4. OTHER INCOME

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---------------------------------------|-----------------------|-----------------------|
| Provision for logistic service income | 4,129 | 2,941 |
| Rental income | 437 | 481 |
| Compensation received | 143 | 12 |
| Processing fee income | 1,080 | 720 |
| Handling fee | 465 | – |
| Others | 157 | 85 |
| | <u>6,411</u> | <u>4,239</u> |

5. OTHER LOSSES, NET

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---|-----------------------|-----------------------|
| Other gains | | |
| Gain on disposal of property, plant and equipment | <u>69</u> | <u>100</u> |
| Other losses | | |
| Property, plant and equipment written-off | (16) | (32) |
| Reversal of provision/(provision) for loss allowance on trade receivables | 73 | (42) |
| Foreign exchange losses, net | (103) | (221) |
| Write-off of downpayment to suppliers | (1,358) | – |
| Write-off of investment in an associate | (6) | – |
| Write-off of amount due from an associate | (113) | – |
| Impairment loss on investment property | (88) | – |
| Write-off of trade receivables | (26) | – |
| | <u>(1,637)</u> | <u>(295)</u> |
| Other losses, net | <u>(1,568)</u> | <u>(195)</u> |

6. EXPENSES BY NATURE

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---------------------------------|-----------------------|-----------------------|
| Cost of trading goods sold | 1,337,299 | 1,328,085 |
| Employee benefit expenses | 20,502 | 20,818 |
| Depreciation expenses | | |
| – property, plant and equipment | 5,232 | 3,948 |
| – right-of-use assets | 1,349 | 688 |
| – investment properties | 71 | 71 |
| Amortisation expenses | | |
| – intangible assets | 176 | 172 |
| Auditors' remuneration | | |
| – audit services | 532 | 539 |
| – non-audit services | 53 | 68 |
| Transportation costs | 18,178 | 16,216 |
| Lease expenses relating to | | |
| – low value assets | 131 | 61 |
| – short term leases | 479 | 506 |
| Repair and maintenance expenses | 5,281 | 4,710 |
| Legal and professional fees | 938 | 878 |
| Secretarial fees | 356 | 475 |
| Custom duty | 622 | 28 |
| Subcontractor labour charge | 1,012 | 201 |
| Other expenses | 10,735 | 7,910 |
| | <u>1,402,946</u> | <u>1,385,374</u> |

7. FINANCE COSTS, NET

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---|-----------------------|-----------------------|
| Interest income from bank deposits | 249 | 239 |
| Interest expense on bank borrowings | (2,061) | (1,100) |
| Interest expense on hire purchase liabilities | (282) | (261) |
| Interest expense on lease liabilities | (65) | (219) |
| Interest expense on bank overdraft | (38) | (28) |
| Finance costs | <u>(2,446)</u> | <u>(1,608)</u> |
| Finance costs, net | <u>(2,197)</u> | <u>(1,369)</u> |

8. INCOME TAX EXPENSE

Malaysian corporate income tax has been provided at the rate of 24% (2021: 24%) of the estimated assessable profit for the years ended 31 December 2022 and 31 December 2021.

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|--|-----------------------|-----------------------|
| Malaysian corporate income tax | | |
| – current | 3,135 | 10,896 |
| – (over)/under provision in prior year | (184) | 10 |
| | <u>2,951</u> | <u>10,906</u> |
| Deferred income tax | (151) | (774) |
| Income tax expense | <u>2,800</u> | <u>10,132</u> |

9. DIVIDENDS

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---|-----------------------|-----------------------|
| In respect of the financial year ended 31 December 2021 | | |
| – dividend of HK\$0.008 per share paid on 15 July 2022 | | |
| (In respect of the financial year ended 31 December 2020 | | |
| – dividend of HK\$ \$0.0055 per share paid on 15 July 2021) | <u>4,467</u> | <u>2,891</u> |

At the forthcoming Annual General Meeting, no dividend will be declared for financial year ended 31 December 2022.

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 years. 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.

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|--|-----------------------|-----------------------|
| Earnings: | | |
| Profit for the years attributable to the owners of the Company | 2,381 | 25,485 |
| Number of shares: | | |
| Weighted average number of shares in issue | 1,000,000,000 | 1,000,000,000 |
| Basic and diluted earnings per share (expressed in sen) | <u>0.24</u> | <u>2.55</u> |

As at 31 December 2022 and 31 December 2021, the Company has no outstanding potential dilutive shares.

11. TRADE AND OTHER RECEIVABLES

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---|-----------------------|-----------------------|
| <u>Non-current</u> | | |
| Deposits for acquisition of leasehold land* | <u>17,636</u> | <u>930</u> |
| <u>Current</u> | | |
| Trade receivables | 111,809 | 134,362 |
| Less: provision for loss allowance | <u>(1,232)</u> | <u>(1,305)</u> |
| | 110,577 | 133,057 |
| Other receivables# | 527 | 7,862 |
| Deposits and prepayments | 3,003 | 2,811 |
| Downpayment to suppliers | 10,885 | 9,266 |
| Other tax receivables | 99 | 125 |
| Amount due from an associate | <u>-</u> | <u>113</u> |
| | <u>125,091</u> | <u>153,234</u> |
| | <u>142,727</u> | <u>154,164</u> |

* On 3 March 2022, the Group entered into a Sales and Purchase Agreement (the “**Agreement**”) to acquire two (2) adjoining pieces of vacant land in Malaysia for a purchase consideration of RM29,392,981 and paid a refundable deposit of RM17,636,000. The completion of the said acquisition is subject to the fulfilment of the terms and conditions stated in the Agreement. The said acquisition has yet to be completed as at the date of this announcement.

For the year ended 31 December 2021, included in other receivables are loans to one of its suppliers amounting to RM5,000,000. The loans are with tenure of 4 months and secured by personal guarantees.

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 is as follows:

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---------------|------------------------------|-----------------------|
| 0 – 30 days | 96,668 | 130,792 |
| 31 – 60 days | 14,671 | 2,182 |
| 61 – 120 days | 468 | 138 |
| Over 120 days | 2 | 1,250 |
| | 111,809 | 134,362 |

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

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|------------------------|------------------------------|-----------------------|
| – RM | 111,809 | 134,336 |
| – United States Dollar | – | 26 |
| | 111,809 | 134,362 |

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 decrease in the provision for loss allowance is due to a decrease 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:

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|------------------------------|------------------------------|-----------------------|
| At 1 January | 1,305 | 1,263 |
| Provision for loss allowance | (73) | 42 |
| At 31 December | 1,232 | 1,305 |

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

12. TRADE AND OTHER PAYABLES

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|-----------------------------|-----------------------|-----------------------|
| Trade payables | 9,942 | 22,890 |
| Accrued payroll liabilities | 5,976 | 7,023 |
| Other payables and accruals | 3,464 | 5,497 |
| | <u>19,382</u> | <u>35,410</u> |

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

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|------------------------|-----------------------|-----------------------|
| – RM | 9,026 | 20,554 |
| – United States Dollar | 916 | 2,336 |
| | <u>9,942</u> | <u>22,890</u> |

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

| | 2022 <i>RM'000</i> | 2021 <i>RM'000</i> |
|---------------|-----------------------|-----------------------|
| 0 – 30 days | 9,853 | 21,095 |
| 31 – 60 days | 10 | 12 |
| 61 – 120 days | – | 1,783 |
| Over 120 days | 79 | – |
| | <u>9,942</u> | <u>22,890</u> |

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

BUSINESS REVIEW

The Group holds a significant market position as a leading scrap ferrous metal trader in Malaysia, driven by our unwavering commitment to integrity, which underpins all our dealings. We are dedicated to fulfilling our commitments and meeting the needs of our customers. We are announcing financial results for the financial year ended of 31 December 2022 (“**FYE 2022**”).

The year 2022 proved to be a challenging one for the Group, as we encountered various challenges during FYE 2022. Despite the worldwide recuperation from the Covid-19 pandemic, the implementation of China’s zero-Covid caused disruptions to the global supply chain, both directly and indirectly. Additionally, the conflict between Russia and Ukraine exacerbated the already fragile global economies. Furthermore, the average price of crude oil in 2022 rose significantly to USD100 per barrel, resulting in an increase in operating costs for businesses. Consequently, the Group’s financial performance was adversely affected during FYE 2022.

In 2022, the global steel market was undergoing a downturn, as reported by Malaysia Industries Development Finance Berhad (“**MIDF**”) on their website on 10 January 2023. The research report stated that “The prices of steel bars maintained their downward trend in Dec-22, marking the sixth consecutive month of decline. According to the data released yesterday by the Department of Statistics (DOSM), the average prices of five types of mild steel bars and four types of high tensile deformed bars it tracked saw a reduction of -0.60% month-on-month to RM3,602.94 per tonne (Nov-22: -1.04% month-on-month to RM3,625.50). On a year-on-year basis, it still represented an increase of +7.8% year-on-year but at its slowest pace since Mar-21. This was in line with the global decline in iron ore and steel prices.”

As a result of the depressed steel prices, scrap ferrous metal prices followed a similar downward trend in the second half of 2022. Despite the decline in scrap metal prices during this period, the average yearly scrap prices were marginally higher, by approximately 3.8%, when compared to the previous financial year ended on 31 December 2021 (“**FYE 2021**”). However, the sales volume of scrap ferrous metal for FYE 2022 was recorded at 675,062 tonnes, a decrease of 3.8% when compared to FYE 2021. This decrease was partly attributable to the absence of scrap metal export sales in 2022, after the Malaysian Government imposed an export tax on scrap metal exports. Hence, the Group’s revenue for FYE 2022 was recorded at RM1,404.58 million, compared to RM1,418.24 million in FYE 2021.

Regarding profitability, the Group’s net profit after tax for the FYE 2022 was recorded at RM1.48 million (compared to RM25.41 million in the FYE 2021), representing a significant decrease of approximately 94.18%. This adverse effect was mainly due to the drop in gross profit margin and increase in distribution and selling and administrative expenses during the year under review.

The current market outlook remains gloomy, characterised by numerous uncertainties such as political conflicts, global inflation, and elevated energy prices. In light of these challenges, the Group will continue to maintain vigilance and prioritize operational efficiency in order to strengthen its leading position in Malaysia’s scrap ferrous metal trading industry.

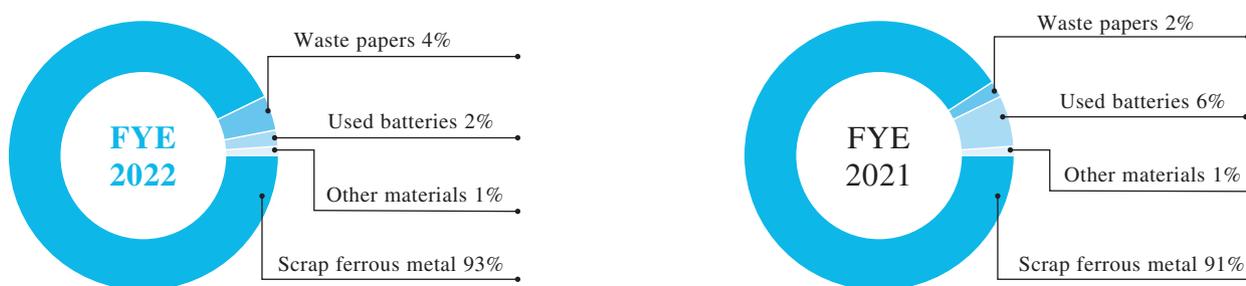
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

The Group recorded a total revenue of RM1,404.58 million for the FYE 2022 representing a marginal decrease of 0.96% as compared to revenue of RM1,418.24 million in the preceding FYE 2021. The marginal decrease in the Group revenue in FYE 2022 was mainly attributable to a lower sales volume of scrap metal by approximately 3.8% compared to FYE 2021, offset by a marginally higher yearly average scrap ferrous metal selling price. The scrap metal selling price was recorded higher in the first half of 2022 and subsequently hit by a sharp fall in the second half of 2022.

The breakdown of the total revenue of our Group by product types for the years under review is as follows:



The Group's revenue from sales of scrap ferrous metal during the years under review are contributed by the following:

| | For the financial year ended 31 December | | | | | | | |
|--------------|--|--------------------|--------------------|----------------------|--------------------|--------------------|--------------------|--------------|
| | 2022 | | 2021 | | 2021 | | | |
| | Volume sold (tonnes) | Revenue % (RM'000) | Revenue % (RM'000) | Volume sold (tonnes) | Revenue % (RM'000) | Revenue % (RM'000) | Revenue % (RM'000) | % |
| Local | 675,062 | 100.0 | 1,309,574 | 100.0 | 673,413 | 95.9 | 1,239,823 | 96.1 |
| Export | — | — | — | — | 28,433 | 4.1 | 49,938 | 3.9 |
| Total | 675,062 | 100.0 | 1,309,574 | 100.0 | 701,846 | 100.0 | 1,289,761 | 100.0 |

Gross Profit

The Group's gross profit declined by approximately RM25.2 million from FYE 2021, which was RM77.57 million, to RM52.33 million recorded in FYE 2022. The annual average gross profit margin dropped by approximately 1.8% at 3.7% compared to last year 5.5%. The decrease in gross profit margin was mainly attributable to the low commodity selling price in scrap ferrous metal during second half of 2022 coupled with an increase in average procurement cost and direct overheads.

Other income

Other income increased from RM4.24 million for the FYE 2021 to RM6.41 million for the FYE 2022, mainly due to the increase in logistic service income.

Other losses, net

Our Group's other net losses was RM1.57 million for the FYE 2022, which represented a higher net loss of RM1.37 million compared to FYE 2021. The increase was mainly due to the write-off of downpayment to suppliers.

Distribution and Selling Expenses

The Group recorded its distribution and selling expenses of RM25.76 million for the FYE 2022, represented an increase of approximately 18% compared to FYE 2021 of RM21.78 million. The increase was primarily due to the increase in domestic transportation cost, such as, diesel cost, repair and maintenance costs of motor vehicle cost and etc, resulting from the addition of fleet acquired during the year.

Administrative Expenses

The Group's administrative expenses for FYE 2022 and FYE 2021 were recorded at RM24.95 million and RM22.93 million respectively. The higher administrative expenses in 2022 were mainly due to higher depreciation for property, plant and equipment and right-of-use assets as the Group had acquired additional fleet and three (3) parcels of leasehold land during FYE 2022.

Taxation

Malaysian corporate income tax has been provided at the rate of 24% (2021: 24%) of the estimated assessable profit. Our effective tax rate for the FYE 2022 was 65.5% (2021: 28.5%). The higher effective tax rate compared to last year was mainly attributable to higher non-deductible expenditures for tax purposes in FYE 2022.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners for the FYE 2022 was RM2.38 million (2021: RM25.49 million), which is in tandem with the decrease in profit before income tax.

Key Financial Ratios

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

| Liquidity Ratios | As at 31 December | |
|-------------------------|--------------------------|-------------|
| | 2022 | 2021 |
| Current ratio | 3.5 times | 3.6 times |
| Gearing ratio | 26.6% | 16.7% |

| | For the year ended 31 December | |
|------------------------------------|---------------------------------------|-------------|
| | 2022 | 2021 |
| Inventories' turnover period | 14 days | 15 days |
| Trade receivables' turnover period | 32 days | 35 days |
| Trade payables' turnover period | 4 days | 8 days |

Working Capital

The inventories' turnover period of the Group for the FYE 2022 was 14 days, which was slightly lower compared with the previous year. The Company has improved its logistic efficiency in delivery of goods to its customers.

The Group's trade receivables' turnover period improved to 32 days for the FYE 2022, compared to 35 days in the previous year. This improvement was mainly due to tighter control on credit terms and an improved collection period.

The Group's trade payables' turnover period decreased to 4 days for FYE 2022, compared to 8 days in the previous year. The reduction was mainly due to the increase in downpayment to suppliers.

Liquidity and Financial Resources

As at 31 December 2022, the Group's total equity attributable to owners amounted to RM204.76 million (2021: RM206.84 million) including retained earnings of RM120.76 million (2021: RM122.84 million). The Group's working capital amounted to RM149.0 million (2021: RM174.0 million) of which cash and bank balances, and pledged bank deposits were RM30.66 million (2021: RM31.69 million).

Take into accounts of 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 2022 were RM52.3 million (2021: RM33.4 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 2022 was 26.6% (2021: 16.7%). Gearing ratio is calculated based on total debts divided by total equity as at the end of the year. The increase in gearing ratio was mainly attributable to the additional drawdown of term loan and increase in short-term banking facilities utilised.

Future Plans for Material Investments and Capital Assets

As of 31 December 2022, the Group has not plans for material investments or capital assets beyond those disclosed in the "Future Plans and Use of Proceeds" section of the Company's prospectus issued on 27 February 2019 (the "**Prospectus**") and the Company's announcement for change in use of proceeds dated 16 July 2020.

Pledge of Assets

At the end of FYE 2022 and FYE 2021, the Group has pledged the following assets to banks in order to secure certain bank borrowings and general banking facilities granted to the Group:

| | 2022 | 2021 |
|-------------------------------|---------------|---------------|
| | RM'000 | RM'000 |
| Property, plant and equipment | 610 | 687 |
| Right-to-use assets | 19,577 | 9,938 |
| Investment properties | 5,365 | 5,514 |
| Pledged bank deposits | 5,437 | 5,345 |
| | <hr/> | <hr/> |
| | 30,989 | 21,484 |
| | <hr/> <hr/> | <hr/> <hr/> |

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2022 (2021: Nil).

Capital Commitments

As of 31 December 2022, the Group has capital commitment of RM11.76 million (2021: RM10.06 million) for the acquisition of property, plant and equipment.

Risk Management

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

As most of the Group's operating subsidiaries are located in Malaysia and conduct their transactions in Malaysia Ringgit (RM), which is also the functional and presentation currency, the Group is not significantly exposed to foreign currency risk.

Since most of the Group's business transactions, assets and liabilities are denominated in RM, the Group has minimal exposure to foreign currency risk. While the Group currently does not have a foreign currency hedging policy for foreign currency transactions, assets and liabilities, the management closely monitors foreign currency exposure and may consider hedging significant exposures if necessary.

The Group's interest rate risk arises primarily from borrowings obtained at variable rates, which expose the Group to cash flow interest rate risk.

The credit risk of the Group mainly arises from cash and cash equivalents and trade and other receivables. 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 an asset and assesses whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. In determining whether there is a significant increase in credit risk, the Group compares the risk of a default as at the date of initial recognition and considers available reasonable and supportive forward-looking information. The Group incorporates the following indicators in its assessment:

- 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; and/or
- 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.

The Group manages credit risk associated with cash and bank deposits by only transacting with reputable commercial banks that are considered high-credit-quality financial institutions. There has been no recent history of default in relation to these financial institutions, and the expected credit loss of cash at banks is close to zero.

The Group applies the simplified approach prescribed by IFRS 9 to provide for expected credit losses for all trade receivables which permits the use of the lifetime expected loss provision. The Group considers the credit risk characteristics, days past due, and forward-looking information to measure the expected credit losses. As at 31 December 2022, the expected loss rate for trade receivables was 1.1% (2021: 1.0%). The provision for trade receivables as at 31 December 2022 was RM1.2 million (2021: RM1.3 million).

The trade receivables written off during the FYE 2022 amounted to RM0.026 million (2021: Nil).

The Group has a significant concentration of credit risk from customers for scrap ferrous metals such as steel mills and ferrous metal trading companies. As at 31 December 2022, 84% (2021: 94%) of its total trade receivables were due from this group of customers. As our Group is one of the few approved scraps 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 negligible.

Cash flow forecast is performed by the operating entities of the Group and aggregated by the Group finance. The Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs, taking into consideration 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 FYE 2022

The Company entered into a Memorandum of Understanding (“MOU”) with China Environmental Technology International Group Limited (“CET”) on 3 March 2023. The MOU outline the initial intention of both parties to cooperate in developing projects in the field of environmental protection business, with CET intend to provide a range of investment and advisory support and pursue a strategic investment in the Company. For details, pleaser refer to the Company's announcement dated 3 March 2023.

Other than the above disclosed, the Board is not aware of any other significant events that have occurred subsequent to the FYE 2022 and up to the date of this announcement that would require disclosure.

USE OF PROCEEDS FROM THE SHARE OFFER

The net proceeds raised by the Company from the share offer on listing 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 RM24.0 million (equivalent to approximately 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 and the Company’s announcement dated 16 July 2020 in relation to the change in use of the proceeds.

| | Available (RM'000) | Change in use of Proceeds (RM'000) | New allocation for the net proceeds (RM'000) | Balance as at 31 December 2021 (RM'000) | Amount utilised during the year ended 31 December 2022 (RM'000) | Balance as at 31 December 2022 (RM'000) | Expected timeline for fully utilising the remaining proceeds (taking into account of the new allocation) (Note) |
|---|-----------------------|---|---|---|--|---|---|
| Partially replacing our fleet of trucks | 3,604 | - | 3,604 | - | - | - | |
| Enhancing our processing abilities | 2,908 | - | 2,908 | - | - | - | |
| Setting up new enterprise resource planning system | 942 | - | 942 | 158 | 158 | - | |
| Setting up a new scrapyards in the east coast of Peninsular Malaysia | 4,546 | (4,546) | - | - | - | - | |
| Expansion of our scrapyards in Selangor, Malaysia | 6,389 | - | 6,389 | 5,349 | - | 5,349 | Second quarter of 2023 |
| The Group’s working capital for our scrap ferrous metal trading business | 18,471 | 4,546 | 23,017 | - | - | - | |
| General working capital for other general corporate purpose (excluding the purchase of scrap materials) | 4,096 | - | 4,096 | - | - | - | |
| | <u>40,956</u> | <u>-</u> | <u>40,956</u> | <u>5,507</u> | <u>158</u> | <u>5,349</u> | |

Note: The expected timeline for utilising the remaining proceeds was based on the best estimation of the future market conditions made by the Group. It would be subject to change based on the current and future development of market conditions.

As at the date of this announcement, there were no changes of business plans of the Group from those disclosed in the Prospectus and the Company’s announcement dated 16 July 2020.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2022, the Group employed 209 individuals in Malaysia, an increase from 177 in 2021. The total staff costs and related expenses, including the Directors' remuneration, for the FYE 2022 was RM20.50 million, a decrease from RM20.82 million in 2021. The decrease in staff cost and related expenses was due to lower payout of the performance bonuses during the year.

The Group's remuneration policy for employees includes basic salaries, allowances, bonuses and, other employee benefits, which are determined based on their experience, qualifications and general market conditions. The Board sets the emolument policy for employees based on their merit, qualification and competence. The Group regularly provides training to its employees to enhance their skills and knowledge.

PRE-EMPTIVE RIGHTS

The articles of association of the Company, as well as the laws of Cayman Islands, do not provide for any provisions of pre-emptive rights that would require 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 FYE 2022.

DIVIDENDS

The Board has decided not to recommend the payment of final dividend in respect of the FYE 2022 (2021: HK\$0.008 per share).

CLOSURE OF REGISTER OF MEMBERS FOR 2023 AGM

The annual general meeting of the Company will be held on Saturday, 17 June 2023 ("2023 AGM"). The register of members of the Company will be closed from Tuesday, 13 June 2023 to Saturday, 17 June 2023, both days inclusive. During this period, no share transfer will be processed. In order to determine shareholders' eligibility to attend and vote at the 2023 AGM, shareholders must lodge transfer documents and relevant share certificates for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 pm on Monday, 12 June 2023.

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 acknowledges the significance of good corporate governance in enhancing its management and safeguarding the interests of the shareholders. For the FYE 2022, the Company has been in compliance to the code provisions outlined in the Corporate Governance Code as detailed in Appendix 14 of the Listing Rules, with the exception of deviation from the code provision C.2.1. The chairman of the Board (the “**Chairman**”) and Chief Executive Officer (the “**CEO**”), Datuk Sia Kok Chin, has led the Group since 2001. The Board believes that vesting both positions in Datuk Sia Kok Chin is advantageous to the Group’s management and business development, providing consistent and strong leadership. The Board will continue to evaluate and consider splitting the roles of the Chairman and CEO when appropriate, taking into account the Group’s overall circumstances.

The Board will continue to review and monitor its code of corporate governance practices of the Company with an aim of 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 Issuers” (the “**Model Code**”) as set out in Appendix 10 of 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 their office or employment, are 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 AND RISK COMMITTEE AND REVIEW OF ANNUAL RESULTS

The audit and risk committee of the Company consisting of Ms. Sai Shiow Yin, Mr. Puar Chin Jong and Mr. Chu Kheh Wee reviewed consolidated financial information for the FYE 2022, including accounting principles and practices adopted by the Group. The Audit and Risk Committee has also discussed internal controls and financial reporting matters with the management of the Company.

The figures in respect of the preliminary announcement of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the FYE 2022 have been agreed upon by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants. Consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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 FYE 2022 will be despatched to the shareholders of the Company and published on the aforesaid websites on or before 30 April 2023.

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

Hong Kong, 30 March 2023

As at the date of this announcement, the Directors are:

Executive Directors

Datuk 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