

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2013

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED (“FPE”) 31 DECEMBER 2013

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (MFRS 134):

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with MFRS 134: Interim Financial Reporting and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”).

The interim financial statements should be read in conjunction with the Audited Financial Statements of the Company for the financial year ended (“FYE”) 31 December 2012 and the accompanying explanatory notes attached to the interim financial report.

A2. Summary of significant accounting policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the FYE 31 December 2012, except for the adoption of the following MFRSs, amendments to MFRSs and IC Interpretations:

Adoption of New and Revised FRSS, IC Interpretations and Amendments

Effective for financial periods beginning on or after 1 July 2012:

Amendments to MFRS 101 Presentation of Financial Statements (Amendments relating to Presentation of Items of Other Comprehensive Income)

Effective for financial periods beginning on or after 1 January 2013:

Amendments to MFRS 1 Government Loans

Amendments to MFRS 7 Financial Instruments: Disclosure – Offsetting of Financial Assets and Financial Liabilities

Amendments to MFRS 10, MFRS 11 and MFRS 12 Consolidated Financial Statements, Joint Arrangement and Disclosure of Interests in Other Entities: Transition Guidance

MFRS 3 Business Combination (IFRS 3 issued by IASB in March 2004)

MFRS 10 Consolidated Financial Statements

MFRS 11 Joint Arrangements

MFRS 12 Disclosure of Interests in Other Entities

MFRS 13 Fair Value Measurement

MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)

MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)

MFRS 128 Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)

IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

Amendments to MFRSs contained in the document entitled Annual Improvements 2009 - 2011 cycle

The adoption of the abovementioned new and revised MFRSs, IC Interpretations and Amendments have no significant effect to the Group’s consolidated financial statements of the current financial quarter under review or the comparative consolidated financial statements of the prior financial quarter.

A2. Summary of significant accounting policies (cont'd)

The Group has not adopted the following new and revised MFRSs, IC Interpretations and Amendments because they are not yet effective for the current financial year ended ("FYE") 31 December 2013:

Effective for financial periods beginning on or after 1 January 2014:

Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities
Amendments to MFRS 132	Financial Instruments Presentation: Offsetting of Financial Assets and Financial Liabilities
Amendments to MFRS 136	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to MFRS 139	Novation of Derivatives and Continuation of Hedge Accounting
IC Interpretation 21	Levies

Effective for financial periods beginning on or after 1 July 2014:

Amendments to MFRS 119	Defined Benefit Plans : Employee contributions
Amendment to MFRSs contained in the document entitled Annual Improvements to MFRSs 2010-2012 cycle	
Amendment to MFRSs contained in the document entitled Annual Improvements to MFRSs 2011-2013 cycle	

Effective for financial periods beginning on or after 1 January 2015:

MFRS 9	Financial Instruments
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The Group will adopt the above when they become effective in the respective financial periods. These MFRSs and Amendments to MFRSs are not expected to have any significant effect to the financial statements of the Group upon their initial application.

A3. Auditors' report

There was no qualification on the Audited Financial Statements of Hiap Huat and its subsidiaries ("Group") for the FYE 31 December 2012.

A4. Seasonal or Cyclical Factors

The principal businesses of the Group were not significantly affected by seasonal or cyclical factors during the current financial quarter under review.

A5. Items of unusual nature and amount

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter under review.

A6. Material Changes in Estimates

There were no changes in the estimates of amount reported in prior financial period that had a material effect in the current financial quarter under review.

A7. Issuance, cancellations, repurchase, resale and repayments of debts and equity securities

There were no issuances, cancellation, repurchases, resale and repayments of debt and equity securities in the current financial quarter under review.

A8. Dividends Paid

No interim or final dividends were declared or paid in the current financial quarter under review.

A9. Segmental Information

No segment reporting is prepared as the principal activities of the Group are predominantly carried out in Malaysia and are engaged in a single business segment of manufacturing, recycling and refining all kinds of petroleum based products.

A10. Valuation of property, plant and equipment

There was no valuation of property, plant and equipment in the current financial quarter under review.

A11. Capital Commitments

Capital commitment as at the reporting date is as follows:

	Current Financial Quarter Ended 31.12.2013 RM'000
Approved and contracted for:	
- Acquisition of property, plant and equipment	<u>12,217</u>

A12. Material subsequent event

There are no material events subsequent to the end of the current financial quarter under review that have not been reflected in this interim financial statements.

A13. Significant event during the period

There were no significant events during the current financial quarter under review that have not been reflected in this interim financial statements.

A14. Changes in the Composition of the Group

There were no changes in the composition of the Group during the current financial quarter under review.

A15. Contingent Liabilities and Contingent Assets

There were no contingent liabilities and contingent assets, which upon becoming enforceable may have a material effect on the net assets, profits or financial position of the Group for the current financial period to date.

A16. Related Party Transaction

Save as disclosed below, there were no other related party transactions for the current financial quarter under review :

	Current Financial Quarter Ended 31.12.2013 RM'000	Preceding Financial Year Ended 31.12.2012 RM'000 (Audited)
Shareholder:		
- Allowance	17	67

B. ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING REQUIREMENTS

B1. Review of Performance

Performance for the FYE 31 December 2013 versus the corresponding quarter in the FYE 31 December 2012

	Current Quarter Period Ended 31 December		Cumulative Quarter Year Ended 31 December	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000 (Audited)
Revenue	12,447	11,054	42,578	39,209
Profit Before Taxation	592	(1,461)	2,827	4,840

The Group's revenue for the current quarter ended 31 December 2013 increased by RM1.39 million or 12.60% compared to the corresponding quarter in the previous financial year. Over the twelve months period, the Group's revenue increased by RM3.37 million or 8.59% as compared to the corresponding financial year ended 31 December 2012. This improved performance was mainly contributed by the sale of lubricant products from the new production plant in Pulau Indah which had commenced commercial production in current quarter under review.

The Group's profit before tax for the current quarter FYE 31 December 2013 increased by RM2.05 million or 140.52% compared to the corresponding quarter in the previous financial year. This was mainly due to listing expenses amounting to RM2.53 million expensed off in the corresponding quarter for FYE 31 December 2012. The Group's profit before tax of RM0.59 million for the current quarter ended 31 December 2013 decreased by RM0.48 million or 44.47% from RM1.07 million (after removing the effects of the listing expenses of RM2.53 million) recorded in corresponding quarter in the previous financial year. This was mainly due to the increase in staff related expenses and logistic costs.

Over the twelve months period, the Group's profit before tax declined by RM2.01 million or 41.59% as compared to the corresponding FYE 31 December 2012. The decline was mainly due to increase in raw material price, pre-operating expenses incurred for the Pulau Indah production plant and marketing expenses incurred in promoting the Group's products and services both locally and overseas.

B2. Comparison with preceding quarter's results

	Financial Quarter Ended		Variance RM'000
	31.12.2013 RM'000	30.09.2013 RM'000	
Revenue	12,447	9,948	2,499
Profit Before Tax	592	266	326

Revenue of the Group increased by RM2.50 million or 25.12% from RM9.95 million recorded for the preceding quarter compared to RM12.45 million for the FPE 31 December 2013. Profit before tax for the Group increased by RM0.33 million or 122.56% in the current financial quarter under review as compared to the preceding quarter

The improved performance was mainly due to the increased sales of lubricant products resulting from the commencement of commercial production in the new production plant at Pulau Indah during the current quarter under review. Further thereto, the improvement in the Group's profit before tax was mainly due to lower selling and distribution costs.

B3. Prospects

The Group has commenced commercial production at its new production facility in Pulau Indah in the fourth quarter of the FYE 31 December 2013. In addition, the Group has also achieved positive results in its efforts to expand and reinforce its key raw material supply chain as well as its expansion in the customers and suppliers network. Premised on the aforesaid and capitalising on the core competencies of the Group, the Board of Directors envisages that the Group will be able to enjoy positive growth and favourable prospects in the long term. Barring any unforeseen circumstances, the Board of Directors is optimistic about the Group's performance for the financial year ending 31 December 2014.

B4. Profit guarantee or profit forecast

No profit guarantee or profit forecast has been issued by the Group previously in any public document.

B5. Taxation

	Current Quarter		Cumulative Quarter	
	Period Ended 31 December 2013	2012	Year Ended 31 December 2013	2012
	RM'000	RM'000	RM'000	RM'000 (Audited)
Taxation	(221)	288	66	1,792
Deferred tax – origination and reversal of temporary differences	231	126	231	80
	10	414	297	1,872

The Group effective tax rate for the current financial quarter under review was lower than the statutory tax rate due to an overprovision of taxation in prior years and availability of tax allowances for set off.

B6. Status of corporate proposals

Save as disclosed below, there are no other corporate proposals announced but not completed as at the date of this announcement:

On 10 May 2013 the Company entered into seven (7) separate Sale and Purchase Agreements with Sunway Damansara Sdn Bhd and Perbadanan Kemajuan Negeri Selangor for the acquisition of seven (7) units of office suites within an on-going development project known as "Sunway Nexis Soho" erected on the land held under Master Title PN 94193, Lot 656570 (formerly known as H.S. (D) No. 145186, PT No. 371) [formerly forming part of land under Master Title H.S (D) 103054, PT No. 33491] in the Mukim Pekan Baru Sungai Buloh, Daerah Petaling, Negeri Selangor with the total net floor areas of 1,084 square metres for a total cash consideration of RM11,145,750.00.

The proposed acquisitions are expected to be completed by first quarter of 2015.

B7. Status of utilisation of proceeds

Subsequent to the listing on the ACE Market of Bursa Securities, the gross proceeds of RM17 million from the public issue by the Group have been utilised in the following manner as at 31 December 2013 :

Purposes	Intended timeframe for utilisation	Proposed utilisation RM'000	Actual utilisation RM'000	Deviation	
				RM'000	%
(i) Capital expenditure	2 years	4,500	3,708	-	-
(ii) Working Capital	2 years	8,200	7,973	⁽¹⁾ (227)	2.77
(iii) Repayment of bank borrowing	1 year	2,000	2,000	-	-
(iv) Estimated listing expenses	1 month	2,300	2,527	⁽¹⁾ 227	9.87
Total gross proceeds		17,000	16,208		

Note:

(1) The additional listing expenses of approximately RM227,000 was due to an underestimation of miscellaneous expenses relating to the Company's listing on the ACE Market of Bursa Securities such as printing costs and campaigning expenses. This amount has been adjusted against the gross proceeds allocated for working capital.

B8. Group borrowings and debt securities

The Group's borrowings as at 31 December 2013 are as follows:

	Current Quarter Ended 31.12.2013 RM'000
Short term borrowings	
Secured:	
Bank overdraft	1,560
Hire purchases	1,518
Term loans	2,371
	<u>5,449</u>
Long term borrowings	
Secured:	
Hire purchases	2,319
Term loans	16,667
	<u>18,986</u>
Total Borrowings	<u><u>24,435</u></u>

The above borrowings are denominated in Ringgit Malaysia.

B9. Off balance sheet financial instruments

The Group does not have off balance sheet financial instruments as at the date of this report.

B10. Material Litigation

The Group is not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, and the Directors of Hiap Huat do not have any knowledge of proceedings pending or threatened against Hiap Huat and / or its subsidiaries, or of any fact likely to give rise to any proceeding, which might materially and adversely affect the financial position or business of the Group as at the date of this report.

B11. Dividends

No dividends has been declared or recommended in respect of the current financial quarter under review.

B12. Retained and unrealised profits/losses

	Unaudited as at 31.12.2013 RM'000	Audited as at 31.12.2012 RM'000
Total retained profits of the Group		
- Realised	17,025	14,458
- Unrealised	(1,335)	(1,118)
	<u>15,690</u>	<u>13,340</u>
Add: Consolidated adjustments	209	194
Total retained profits as per Statements of Financial Position	<u><u>15,899</u></u>	<u><u>13,534</u></u>

B13. Earnings Per Share

The basic and diluted earnings per share is calculated based on the Group's comprehensive income attributable to equity holders of the Company divided by the weighted average number of ordinary shares as follows:

	Current Quarter Period Ended 31 December		Cumulative Quarter Year Ended 31 December	
	2013 RM'000	2012 RM'000	2013 RM'000	2012 RM'000 (Audited)
Group's comprehensive income attributable to equity holders of the Company (RM'000)	417	(1,875)	2,365	2,968
Weighted average number of ordinary shares ('000)	333,301	288,030	333,301	258,315
Earnings per share (sen)				
- Basic	0.13	(0.65)	0.71	1.15

Note:

Diluted earnings per share is not disclosed herein as it is not applicable to the Group

B14. Profit for the period

	Current Quarter		Cumulative Quarter	
	Period Ended 31 December		Year Ended 31 December	
	2013	2012	2013	2012
	RM'000	RM'000	RM'000	RM'000
	(Audited)			
Profit before taxation is arrived at after charging/(crediting):-				
Depreciation of property, plant and equipment	937	503	2,593	2,020
Interest expenses	263	272	686	740
Gain on disposal of property, plant and equipment	(108)	(1)	(195)	(86)
Realised gain on foreign exchange	(41)	-	(52)	(14)
Interest income	(30)	(58)	(213)	(87)
Property, plant and equipment written off	1	34	6	34

B15. Authority For Issue

The interim financial statements were reviewed by the Audit Committee of the Company and duly authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated 28 February 2014.

By order of the Board of Directors

CHAN SAY HWA
Group Managing Director

28 February 2014