

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER ENDED 30 JUNE 2014

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED (“FPE”) 30 JUNE 2014

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 2013 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 2013, 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 January 2014:

Amendments to MFRS 10,	Investment Entity
MFRS 12 and MFRS 127	
Amendments to MFRS 132	Offsetting 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 Benefits Plans: Employee Contributions
Amendments to MFRSs	Contained in the document entitled “Annual Improvements 2010 – 2012 Cycle”
Amendments to MFRSs	Contained in the document entitled “Annual Improvements 2011 – 2013 Cycle”

Effective for financial periods beginning on or after 1 January 2016:

Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 11	Accounting for Acquisitions of interests in Joint Operations
MFRS 14	Regulatory Deferral Accounts

Effective date to be announced by Malaysia Accounting Standards Board (MASB)

Amendments to MFRS 7	Mandatory Date of MFRS 9 and Transition Disclosures
MFRS 9 (IFRS 9 (2009))	Financial Instruments (IFRS 9 issued by IASB in November 2009)
MFRS 9 (IFRS 9 (2010))	Financial Instruments (IFRS 9 issued by IASB in October 2010)
MFRS 9	Financial Instruments

The Group intends to adopt the above MFRSs when they become effective.

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.

A3. Auditors' report

There was no qualification on the Audited Financial Statements of Hiap Huat and its subsidiaries ("Group") for the FYE 31 December 2013.

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. Issuances, 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 30.6.2014 RM'000
Approved and contracted for:	
- Acquisition of property, plant and equipment	<u>9,988</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 these 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 these 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 Period Ended 30.6.2014 RM'000	Preceding Financial Year Ended 31.12.2013 RM'000 (Audited)
Shareholder:		
- Allowance	<u>34</u>	<u>67</u>

B. ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING REQUIREMENTS

B1. Review of Performance

Performance for the FPE 30 June 2014 versus the corresponding quarter in the FPE 30 June 2013

	Current Quarter Period Ended 30 June		Cumulative Quarter Year Ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Revenue	10,359	10,592	18,793	20,183
(Loss)/Profit Before Taxation	(478)	1,033	(171)	1,969

The Group's revenue for the current quarter three (3) months ended 30 June 2014 ("2Q2014") decreased marginally by RM0.23 million or 2.20% compared to the corresponding quarter ended 30 June 2014 ("2Q2013"). For six (6) months financial period ended ("FPE") 30 June 2014, the Group's revenue decreased by RM1.39 million or 6.89% compare to the FPE 30 June 2013. The decrease in revenue was mainly due to the decrease in revenue generated from the sales of lubricant, paint and solvent products as well as schedule waste collection. Nevertheless, this is offset by the stronger sales of recycled fuel oil products from existing customers.

The Group's gross profit margin for the 2Q2014 and the FPE 30 June 2014 were lower by 12% and 7% respectively as compared to the corresponding periods 2Q2013 and FPE 30 June 2013. This was mainly due to the declining revenue generated from high profit margin products such as lubricant and collection of schedule waste. In addition, the additional operating cost and finance cost incurred in new Pulau Indah Plant since its commissioning in the fourth quarter of the FYE 31 December 2013 has also affected the profitability of the Group.

As a result of the abovementioned weaker performance in sales and gross profit margin, the Group has incurred a loss before taxation for the 2Q2014 and FPE 30 June 2014 as compared to the corresponding periods 2Q2013 and FPE 30 June 2013.

B2. Comparison with preceding quarter's results

	Financial Quarter Ended		Variance RM'000
	30.6.2014 RM'000	31.3.2014 RM'000	
Revenue	10,359	8,434	1,925
(Loss)/Profit Before Tax	(478)	307	(785)

Revenue for the Group increased by RM1.93 million or 22.82% from RM8.43 million recorded for the preceding quarter compared to RM10.36 million for the current quarter under review. The increase in revenue was mainly due to the increase in sales of recycled fuel oil. However, the revenue generated from high profit margin segment, such as schedule waste collection and lubricant products has declined by 20% and 64% respectively as compared to the preceding quarter. This has impacted the overall product mix gross profit margin of the Group and recorded lower by 12% as compared to the preceding quarter's gross profit margin of 31%.

The Group's has incurred a loss before taxation of RM0.48 million for the current quarter under review as compared to a profit before taxation of RM0.31 million in the preceding quarter mainly due to the decline in gross profit margin as stated above as well as additional cost incurred in marketing and promotional activities for the current quarter under review.

B3. Prospects

With the commencement of commercial production of its new production facility in Pulau Indah in the fourth quarter of the FYE 31 December 2013, the outlook of the Group's is expected to be positive. Notwithstanding the adverse financial results of the current quarter under review, 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 of its customers and suppliers network. This will enhance the availability of feedstock supply.

However, intense market competition, constant pressure for competitive pricing and fluctuations in feedstock prices may have an adverse impact on the Group's earnings and profitability. Notwithstanding the above, the Group will continue to focus on productivity enhancement, marketing efforts and reinforcement of its key raw material supply chain in view of achieving positive results.

As a result of the challenges mentioned above, the Board of Directors anticipates that the financial year ending 31 December 2014 will be a challenging one.

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 Period Ended 30 June		Cumulative Quarter Year Ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Taxation	<u>45</u>	<u>247</u>	<u>127</u>	<u>492</u>

The Group's effective tax rate for the current financial quarter under review was higher than the statutory tax rate due to certain expenses not deductible for tax purposes and also losses in certain subsidiaries which are not allowed for set off against taxable profit in the profit making subsidiaries.

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 utilized in the following manner as at 30 June 2014:

Purposes	Intended time frame for utilization	Proposed utilization RM'000	Actual utilization RM'000	Deviation	
				RM'000	%
(i) Capital expenditure	2 years	4,500	4,500	-	-
(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	17,000		

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 30 June 2014 are as follows:

	Current Quarter Ended 30.6.2014 RM'000
Short term borrowings	
Secured:	
Bank overdraft	2,177
Hire purchases	1,842
Term loans	2,997
	<u>7,016</u>
Long term borrowings	
Secured:	
Hire purchases	1,531
Term loans	17,096
	<u>18,627</u>
Total borrowings	<u>25,643</u>

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 30.6.2014 RM'000	Audited as at 31.12.2013 RM'000
Total retained profits of the Group		
- Realised	16,903	17,204
- Unrealised	(1,349)	(1,349)
	<u>15,554</u>	<u>15,855</u>
Add: Consolidated adjustments	209	209
Total retained profits as per Statements of Financial Position	<u>15,763</u>	<u>16,064</u>

B13. (Loss)/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 30 June		Cumulative Quarter Year Ended 30 June	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Group's comprehensive income attributable to equity holders of the Company (RM'000)	(523)	786	(298)	1,477
Weighted average number of ordinary shares ('000)	333,301	333,301	333,301	333,301
(Loss)/Earnings per share (sen)				
- Basic	(0.16)	0.24	(0.09)	0.44

Note:

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

B14. (Loss)/Profit for the period

	Current Quarter		Cumulative Quarter	
	Period Ended 30 June		6 Months Ended 30 June	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
(Loss)/Profit before taxation is arrived at after charging/(crediting):-				
Interest income	(6)	(31)	(13)	(70)
Other income	-	(37)	(8)	(99)
Interest expenses	336	163	647	297
Depreciation and amortization	1,097	551	2,180	1,083
Provision for doubtful debts	-	10	-	10
Provision for and write off of inventories	-	-	-	-
(Gain) or loss on disposal of quoted or unquoted investments or properties	-	-	-	-
Impairment of assets	-	-	-	-
Foreign exchange (gain)/loss	-	-	(3)	-
(Gain) or loss on derivatives	-	-	-	-
Exceptional items	-	-	-	-

B15. Authority For Issue

The interim financial statements were reviewed by the Audit Committee of the Company and duly authorized for issue by the Board of Directors in accordance with a resolution of the Directors dated 29 August 2014.

By order of the Board of Directors

CHAN SAY HWA
Group Managing Director

29August 2014