

UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2014

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED (“FPE”) 31 DECEMBER 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 |
| Amendments to MFRS 116 and MFRS 141 | Agriculture: Bearer Plants |
| Amendments to MFRS 101 | Disclosure Initiative |
| Amendments to MFRS 10, MFRS 12 and MFRS 128 | Investment Entities: Applying the Consolidation Exception |
| Amendments to MFRS 127 | Equity Method in Separate Financial Statements |

Amendments to MFRS 10 Sales or Contribution Assets between an Investor and its Associate or Joint VC
and MFRS 128 Venture
Annual Improvement to MFRS 2012-2014 Cycle

Effective for financial periods beginning on or after 1 January 2017

MFRS 15 Revenue from Contracts with Customers
MFRS 9 Financial Instrument

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

During the current financial quarter ended 31 December 2014, the leasehold land and factory lots of the Group were revalued based upon valuation carried out by the Independent Valuers, namely, Knight Frank Malaysia Sdn Bhd, Stocker, Robert & Gupta Sdn Bhd and CH Williams, Talhar & Wong Sdn Bhd using the ‘Comparison Approach’ basis. These valuation resulted in a net revaluation surplus of RM8,560,582 (net of deferred tax of RM1,292,858).

A11. Capital commitments

Capital commitment as at the reporting date is as follows:

| | Current Financial Quarter Ended 31.12.2014 RM'000 |
|--|--|
| Approved and contracted for: | |
| - Acquisition of property, plant and equipment | 7,553 |

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 Year Ended 31.12.2014 RM'000 | Preceding Financial Year Ended 31.12.2013 RM'000 (Audited) |
|--------------|---|---|
| Shareholder: | | |
| - Allowance | 67 | 67 |

B. ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING REQUIREMENTS

B1. Review of Performance

Performance for the FPE 31 December 2014 versus the corresponding quarter in the FPE 31 December 2013

| | Current Quarter Ended 31 December | | Cumulative Quarter Ended 31 December | |
|-------------------------------|--------------------------------------|----------------|---|----------------|
| | 2014 RM'000 | 2013 RM'000 | 2014 RM'000 | 2013 RM'000 |
| Revenue | 8,645 | 12,447 | 36,655 | 42,578 |
| (Loss)/Profit Before Taxation | (17) | 592 | (184) | 2,827 |

The Group's revenue for the current quarter three (3) months ended 31 December 2014 ("4Q2014") decreased by RM3.802 million or 30.55% compared to the corresponding quarter ended 31 December 2013 ("4Q2013"). For financial year ended ("FYE") 31 December 2014, the Group's revenue decreased by RM5.923 million or 13.91% compare to the FYE 31 December 2013. The decrease in revenue was mainly due to the decreasing demand for the Group's paint and solvent and recycled fuel oil.

The Group's profit before tax for the current quarter three (3) months ended 31 December 2014 ("4Q2014") decreased by RM0.609 million compared to the corresponding quarter in the previous financial year. The decreased was mainly due to decline in revenue during the quarter.

For financial year ended ("FYE") 31 December 2014, the Group has incurred a loss before taxation of RM0.184 million as compared to a profit before taxation of RM2.827 million in the corresponding FYE 31 December 2013. This was mainly due to the decline in revenue, coupled with lower gross profit margin from 29.4% to 25.2% as a result of additional operating costs and depreciation incurred. In addition, the Group had incurred additional finance cost due to the new Pulau Indah Plant since its commissioning in the fourth quarter of the FYE 31 December 2013.

B2. Comparison with preceding quarter's results

| | Financial Quarter Ended | | Variance RM'000 |
|--------------------------|-------------------------|---------------------|--------------------|
| | 31.12.2014 RM'000 | 30.9.2014 RM'000 | |
| Revenue | 8,645 | 9,217 | (572) |
| (Loss)/Profit Before Tax | (17) | 4 | (21) |

Revenue of the Group decreased by RM0.572 million or 6.2% from RM9.217 million recorded for the preceding quarter compared to RM8.645 million for the current quarter under review. The decrease in revenue was mainly due to the decline in market demand for recycle fuel oil products from our existing customers.

The Group has incurred loss before taxation of RM0.017 million for the current quarter under review as compared to a marginal profit before taxation of RM4,000 in the preceding quarter as a result of the reduction in revenue for recycle fuel oil product as well as higher administrative expenses incurred due to expenses incurred for the revaluation of properties undertaken and charging out of training fees which are not claimable.

B3. Prospects

With the fall of the oil prices over the second half of 2014, the Group is faced with a negative impact on its earnings and profitability. In view of the drop in oil prices, the Group is focusing on effective overhead and production cost management as well as a more aggressive marketing strategy to minimise the negative impact on its earning and profitability and to tide through this difficult period. As a result of the challenges mentioned above, the Board anticipates that the forthcoming financial year to be challenging.

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 | |
|--|-------------------|--------|--------------------|--------|
| | Ended 31 December | | Ended 31 December | |
| | 2014 | 2013 | 2014 | 2013 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Taxation | 308 | (221) | 650 | 65 |
| Deferred tax – originating and reversal of temporary differences | (485) | 231 | (485) | 232 |
| | (177) | 10 | 165 | 297 |

The Group's effective tax rate was lower than the statutory tax rate of 25% due to reversal of deferred taxation during the year. The Group had incurred income tax expenses of RM0.165 million albeit incurring a consolidated loss before taxation of RM0.481 million for the FYE 31 December 2014 due to profitable subsidiaries, namely Hiap Huat Chemical Sdn Bhd and Xia Fa Hardware Sdn Bhd.

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:

- i) On 28 November 2014, Hiap Huat proposed to undertake a private placement of new ordinary shares of RM0.10 each in Hiap Huat ("Hiap Huat Shares"), representing up to 10% of the issued and paid-up share capital of the Company ("Placement Shares").

The Proposed Private Placement is proposed to be implemented pursuant to a prior approval obtained pursuant to Section 132D of the Companies Act, 1965 ("Act") from shareholders of Hiap Huat in a general meeting held on 26 June 2014 ("Section 132D Authority").

The Company had on 27 January 2015 submitted an application to Bursa Malaysia Securities Berhad for the listing of and quotation for up to 33,330,000 new ordinary shares of RM0.10 each in Hiap Huat pursuant to the Proposed Private Placement.

The proposed private placement is expected to be completed by the second quarter of 2015.

- ii) On 22 December 2014, Hiap Huat Chemicals Sdn Bhd, a wholly-owned subsidiary of the Company had entered into a Sale and Purchase Agreement with Everise Frozen Foods Sdn Bhd for the disposal of one (1) unit of factory bearing postal address No. 46, Jalan E 1/2, Taman Ehsan Industrial Park, 52100 Kepong, Selangor measuring approximately 4,618.673 square metres in area and held under leasehold individual title H.S.(M) 22259, PT 8440, Batu 8 Jalan Kepong, Bandar Kepong, District of Gombak, State of Selangor for a total cash consideration of RM11,760,000.

The proposed disposal is expected to be completed by the first quarter of 2015.

B7. Group borrowings and debt securities

The Group's borrowings as at 31 December 2014 are as follows:

| | As at 31.12.2014 RM'000 |
|------------------------------|--|
| Short term borrowings | |
| Secured: | |
| Bank overdraft | 4,315 |
| Hire purchases | 971 |
| Term loans | 4,074 |
| | <u>9,360</u> |
| Long term borrowings | |
| Secured: | |
| Hire purchases | 1,597 |
| Term loans | 18,251 |
| | <u>19,848</u> |
| Total borrowings | <u><u>29,208</u></u> |

B8. Off balance sheet financial instruments

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

B9. 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.

B10. Dividends

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

B11. Retained and unrealised profits/losses

| | Unaudited as at 31.12.2014 RM'000 | Audited as at 31.12.2013 RM'000 |
|--|--|--|
| Total retained profits of the Group | | |
| - Realised | 17,663 | 17,204 |
| - Unrealised | (2,157) | (1,349) |
| | <u>15,506</u> | <u>15,855</u> |
| Add: Consolidated adjustments | 209 | 209 |
| Total retained profits as per Statements of Financial Position | <u><u>15,715</u></u> | <u><u>16,064</u></u> |

B12. (Loss)/Earnings Per Share

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

| | Current Quarter Ended 31 December | | Cumulative Quarter Ended 31 December | |
|--|--------------------------------------|----------------|---|----------------|
| | 2014 RM'000 | 2013 RM'000 | 2014 RM'000 | 2013 RM'000 |
| Group's comprehensive (loss)/income attributable to equity holders of the Company (RM'000) | 160 | 582 | (349) | 2,530 |
| Weighted average number of ordinary shares ('000) | 333,301 | 333,301 | 333,301 | 333,301 |
| (Loss)/Earnings per share (sen) | | | | |
| - Basic | 0.05 | 0.17 | (0.10) | 0.76 |

Note:

Diluted (loss)/earnings per share is not disclosed herein as it is not applicable to the Group

B13. Profit for the period

| | Current Quarter Ended 31 December | | Cumulative Quarter Ended 31 December | |
|---|--------------------------------------|----------------|---|----------------|
| | 2014 RM'000 | 2013 RM'000 | 2014 RM'000 | 2013 RM'000 |
| Profit before taxation is arrived at after charging/(crediting):- | | | | |
| Interest income | (8) | (30) | (27) | (213) |
| Interest expenses | 226 | 264 | 1,234 | 686 |
| Depreciation of property, plant and equipment | 1,212 | 937 | 4,496 | 2,593 |
| Provision for doubtful debts | - | - | - | - |
| Realised foreign exchange (gain)/loss | - | (41) | (3) | (52) |
| Gain on disposal of property, plant and equipment | (29) | (108) | (29) | (195) |
| Exceptional items | - | - | - | - |

B14. 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 26 February 2015.

By order of the Board of Directors

CHAN SAY HWA
Group Managing Director
26 February 2015