NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED ("FPE") 30 JUNE 2015

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (MFRS134):

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with MFRS134: 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 2014 and the accompanying explanatory notes attached to the interim financial report.

A2. Summary of significant accounting policies

During the financial year, the Group have adopted the following amendments to MFRSs issued by the Malaysian Accounting Standards Board ("MASB") that are mandatory for current financial year:

Adoption of new and amended standards

During the financial year, the Group and the Company have adopted the following amendments to MFRSs issued by the Malaysian Accounting Standards Board ("MASB") that are mandatory for current financial year:

Amendments to MFRS 119	Defined Benefits Plans: Employee Contributions
Annual Improvements to MFRSs 2010 – 2012 Cycle	
Annual Improvements to MFRSs 2011 – 2013 Cycle	

Adoption of above amendments to MFRSs did not have any significant impact on the financial statements of the Group and the Company.

Standards issued but not yet effective

The Group and the Company have not applied the following new MFRSs and amendments to MFRSs that have been issued by the MASB but are not yet effective for the Group and the Company:

		Effective dates for financial periods beginning on or after
MFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 127	Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Annual Improvements to MFRSs 2012–2014 Cycle		1 January 2016
Amendments to MFRS 10,	Investment Entities: Applying the Consolidation	1 January 2016

MFRS 12 and MFRS 128	Exception	
MFRS 15	Revenue from Contracts with Customers	1 January 2017
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018

The Group and the Company intend to adopt the above MFRSs when they become effective.

The initial application of the abovementioned MFRSs are not expected to have any significant impacts on the financial statements of the Group and the Company except as mentioned below:

MFRS 9 *Financial Instruments* (IFRS 9 issued by IASB in July 2014)

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces earlier versions of MFRS 9 and introduces a package of improvements which includes a classification and measurement model, a single forward looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. MFRS 9 when effective will replace MFRS 139 *Financial Instruments: Recognition and Measurement.*

MFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in MFRS 139. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. MFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under MFRS 139.

The adoption of MFRS 9 will result in a change in accounting policy. The Group is currently examining the financial impact of adopting MFRS 9.

MFRS 15 *Revenue from Contracts with Customers*

MFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces MFRS 118 *Revenue*, MFRS 111 *Construction Contracts* and related IC Interpretations. The Group is in the process of assessing the impact of this Standard.

A3. Auditors' report

There was no qualification on the Audited Financial Statements of Hiap Huat Holdings Berhad and its subsidiaries ("Group") for the FYE 31 December 2014.

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

The property, plant and equipment are stated at cost/valuation less accumulated depreciation and impairment losses. There was no revaluation of property, plant and equipment for the current quarter and financial year to date. The valuation of property, plant and equipment of the Group have been brought forward without amendment from the financial statements for the year ended 31 December 2014.

A11. Capital commitments

There are no capital commitments as at the reporting date that have not been reflected in these interim financial statements.

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 30.06.2015 RM'000	Preceding Financial Period Ended 30.06.2014 RM'000
Shareholder:		
- Allowance	34	34
Director and Shareholder:		
- Rental	14	-

B. ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING REQUIREMENTS

B1. Review of Performance

Performance for the FPE 30 June 2015 versus the corresponding quarter in the FPE 30 June 2014

	Current Quarter Ended 30 June		Cumulative Quarter Ended 30 June	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Revenue	7,281	10,359	14,325	18,793
Profit/(Loss) before taxation	726	(478)	657	(171)

The Group's revenue for the current quarter three (3) months ended 30 June 2015 ("2Q2015") decreased by RM3.08 million or 29.71% as compared to the preceding year corresponding quarter ended 30 June 2014 ("2Q2014"). For six (6) months financial period ended ("FPE") 30 June 2015, the Group's revenue decreased by RM4.47 million or 23.77% as compared to the FPE 30 June 2014. The decrease in revenue was mainly due to the decrease in selling price in correspondence to the decrease in global oil prices. This decrease in revenue was also due to a decline in demand for our recycled oil products.

As a result of the decrease in revenue, the Group recorded a decrease in gross profit by RM0.36 million or 18.71% to RM1.58 million for 2Q2015 from RM1.94 million for 2Q2014. For the FPE 30 June 2015, the Group's gross profit had decreased by RM0.72 million from RM4.55 million for the FPE 30 June 2014 to RM3.83 million. Nonetheless, the Group recorded an increase in gross profit margin by 2.94% for the current quarter and 2.55% for the current cumulative period. This was mainly due to marginal growth of gross profit margin for recycled paint and solvent and recycled drum and container products.

Notwithstanding the above, the Group has recorded a profit before tax for the current quarter and the current cumulative period mainly due to gain from disposal of plant, property and equipment of RM1.69 million during the current quarter under review.

B2. Comparison with preceding quarter's results

	Financial Quarter Ended		Variance
	30.6.2015	31.3.2015	
	RM'000	RM'000	RM'000
Revenue	7,281	7,044	237
Profit/(Loss) before tax	726	(69)	795

Revenue of the Group increased by RM0.24 million or 3.41% from RM7.04 million recorded for the preceding quarter ("1Q2015') compared to RM7.28 million for the current quarter ("2Q2015") under review. The slight increase in revenue was mainly due to an increase in the sale of recycled oil products and scheduled waste collection of RM0.30 million and RM0.13 million respectively, partly offset by the drop in recycled paint and solvent products of RM0.25 million.

The gross profit margin has decreased from 31.97% in the 1Q2015 to 21.73% in the 2Q2015 under review mainly due to the lower gross profit margins from the sale of recycled oil products as a result of lower average selling prices to maintain our competitiveness in the market.

The Group has recorded profit before taxation of RM0.73 million for the 2Q2015 under review as compared to a loss before taxation of RM0.07 million in the 1Q2015 mainly due to an increase in other income amounting to RM1.69 million arising from the gain from disposal of plant, property and equipment in the 2Q2015 under review. This was partly offset by the decrease in gross profit from RM2.25 million for the 1Q2015 to RM1.58 million for the 2Q2015 under review.

B3. Prospects

The outlook for the second half of 2015 remains uncertain due to the volatility of oil prices. This in turn affected the demand for the Group's products and services and correspondingly asserted a downward pressure on the Group's revenue and margins. Nonetheless, the Group is constantly undertaking continuous enhancements in production efficiencies and overhead and production cost management. In addition, the Group intends to enhance its product offerings, which is expected to generate better sales and in turn improve its profitability.

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 Ended 30 June		Cumulative Quarter Ended 30 June	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Taxation	404	45	758	127

The Group's effective tax rate for the current quarter and the cumulative quarter under review was higher than the statutory tax rate due to losses in certain subsidiaries which are not allowed to be set off against taxable profits in 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:

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 capital of the company (“Proposed Private Placement”).

The proposed private placement is proposed to be implemented pursuant to a prior approval obtained pursuant to section 132D of the Companies Act, 1965 from shareholders of Hiap Huat in a general meeting held on 26 June 2014.

The company had on 27 January 2015 submitted an application to Bursa Malaysia Securities Berhad (“Bursa Securities”) for the listing of and quotation for up to 33,330,000 new Hiap Huat Shares pursuant to the Proposed Private Placement.

On 10 March 2015, Bursa Securities has approved the listing of and quotation of up to 33,330,000 new Hiap Huat shares (excluding treasury shares) to be issued pursuant to be Proposed Private Placement subject to the following conditions:

a) Hiap Huat and Hong Leong Investment Bank Berhad (“HLIB”) must fully comply with the relevant provisions under the Bursa Securities ACE Market Listing Requirements (“ACE LR”) pertaining to the implementation of the Proposed Private Placement;

b) Hiap Huat and HLIB to inform Bursa Securities upon completion of the Proposed Private Placement; and

c) Hiap Huat to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities’ approval once the Proposed Private placement is completed.

The Proposed Private Placement is expected to be completed by fourth quarter of 2015.

B7. Group borrowings and debt securities

The Group’s borrowings as at 30 June 2015 are as follows:

	Current Quarter Ended 30.6.2015 RM’000
Short term borrowings	
Secured:	
Bank overdraft	886
Hire purchases	966
Term loans	4,835
	6,687
Long term borrowings	
Secured:	
Hire purchases	1,220
Term loans	20,564
	21,784
Total borrowings	**28,471**

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 30.06.2015 RM'000	**Unaudited as at 30.06.2014 RM'000**
Total retained profits of the Group		
- Realised	15,715	16,903
- Unrealised	(310)	(1,349)
	15,405	15,554
Add: Consolidated adjustments	209	209
Total retained profits as per Statements of Financial Position	15,614	15,763

B12. Earnings/(Loss) per share

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

	Current Quarter Ended 30 June		**Cumulative Quarter Ended 30 June**	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Group's comprehensive income/(loss) attributable to equity holders of the Company (RM'000)	322	(523)	(101)	(298)
Weighted average number of ordinary shares ('000)	333,301	333,301	333,301	333,301
Earnings/(Loss) per share (sen)				
- Basic	0.10	(0.16)	(0.03)	(0.09)

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

B13. Profit/(loss) for the period

	Current Quarter Ended 30 June		Cumulative Quarter Ended 30 June	
	2015 RM'000	**2014 RM'000**	**2015 RM'000**	**2014 RM'000**
Profit/(Loss) before taxation is arrived at after charging/(crediting):-				
Interest income	(3)	(5)	(7)	(12)
Other income	(1,697)	-	(1,732)	(8)
Interest expenses	388	336	806	647
Depreciation of property, plant and equipment	1,156	1,097	2,304	2,180
Provision for doubtful debts	-	-	-	-
Provision for and write off of inventories	-	-	-	-
(Gain)/Loss on disposal of quoted or unquoted investments	-	-	-	-
Impairment of assets	-	-	-	-
(Gain)/Loss on disposal of fixed assets	(1,689)	-	(1,689)	-
Realised foreign exchange (gain)/loss	-	-	-	(3)
(Gain)/Loss on derivatives	-	-	-	-
Exceptional items	-	-	-	-

B14. 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 20 August 2015.

By order of the Board of Directors

CHAN SAY HWA
Group Managing Director

20 August 2015